It’s All About the Numbers!

LIQUOR STORE
STATEMENT OF REVENUES & EXPENSES
January through December 2017

	Jan - Dec 17	Jan - Dec 16
Ordinary Income/Expense		
Income		
4018 · Gift Certificates	1,037.00	425.00
4085 · Income - ATM	1,290.00	1,956.00
4041 · Rebates	0.00	528.07
4040 · Pulltabs	19,097.00	15,635.40
4030 · Games & Music	144.00	394.00
4025 · Miscellaneous Income	23,592.52	21,405.22
4017 · Food	83,409.29	83,879.42
4015 · Clothing	1,909.95	0.00
4014 · Cigarette Sales	19,395.43	18,310.50
4013 · Off Sale Beer	57,006.37	63,856.90
4012 · On Sale Beer	125,590.84	128,207.84
4011 · Off Sale Liquor	16,598.24	17,932.33
4010 · On Sale Liquor	68,065.90	75,496.07
Total Income	417,136.54	428,026.75
Cost of Goods Sold		
5000 · Cost of Goods Sold		
5040 · Kitchen Food Purchases	28,826.68	28,968.08
5030 · Misc & Snack Food Purchases	21,956.15	22,732.48
5050 · Cigarette Purchases	16,606.08	16,929.99
5010 · Liquor Purchases	25,214.49	26,373.60
5020 · Beer Purchases	89,220.20	93,872.55
Total 5000 · Cost of Goods Sold	181,823.60	188,876.70
Total COGS	181,823.60	188,876.70
Gross Profit	235,312.94	239,150.05
Expense		
6134 · Snow Removal	0.00	300.00
6035 · Cash Over/Short	1,079.03	1,003.28
6910 · Entertainment - DJ's	2,450.00	4,100.00
6110 · Freight	291.50	245.00
6138 · Directv	1,847.16	1,803.22
6137 · Culligan	1,062.34	1,148.65
6135 · City Utilities	2,834.95	2,829.12
6130 · Otter Tail Power	10,165.83	11,962.06
6126 · Heating Fuel	7,267.30	8,686.24
6120 · Depreciation	8,833.43	9,052.42
6170 · Advertising	6,332.96	4,458.01
6060 · Bank Fees & Credit Card Fees	4,568.59	4,662.73
6045 · Dues and Subscriptions	675.00	560.00
6380 · Insurance	12,038.80	11,564.50
6075 · Interest Expense	2,626.22	4,676.12
6080 · Laundry	2,884.69	3,169.29
6500 · Licenses & Other Tax	793.00	693.00
6172 · Mileage	31.72	0.00
6095 · Office Supplies	727.27	813.74
6020 · Wages & Salaries	112,791.43	117,483.72
6025 · Payroll Taxes	8,628.56	9,278.86
6030 · Retirement Contributions	5,084.33	9,924.44
6040 · Professional Fees	11,914.27	11,073.36
6710 · Repairs	9,065.82	15,009.93
6055 · Supplies	10,068.31	7,345.97
6140 · Telephone	963.27	944.29
Total Expense	225,025.78	242,767.95
Net Ordinary Income	10,287.16	-3,617.90

See Accounts Report

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Paul's Initial Review Order

1) Net Income
2) Gross Profit Percentage
3) Labor to Sales Ratio
4) Sales
5) Dram Shop Insurance
6) Change in the various expenses

Net Income

the excess of revenues and gains of a business over expenses and losses during a given period of time.

In the Example….

Net income increased approximately $14,000

2016 = ($3617.90)

2017 = $10,287

It is Possible to Have a Negative Net Income and More Money in the Bank

In June 2012, the Governmental Accounting Standards Board (GASB) issued new public pension accounting rules that took effect in fiscal year 2015 for state and local governments.

The new GASB #68 rules only apply to accounting and financial reporting. They do not apply to PERA funding, and are not used to determine contribution requirements.

The actual cost of providing pension benefits did not change… the only thing that changed is where and how pension costs are accounted for in financial statements.

Due to GASB #68, a small town municipal liquor operation recently reported a paper net loss of more than $68,000 even though they generated a positive cash flow of $30,000.

FYI: The Law Was Changed

- **340A.602 CONTINUATION.**
- In any city in which the report of the operations of a municipal liquor store has shown a net loss prior to interfund transfer **and without regard to costs related to pension obligations of store employees, as required by Statement 68 of the Governmental Accounting Standards Board**, in any two of three consecutive years, the city council shall, not more than 45 days prior to the end of the fiscal year following the three-year period, hold a public hearing on the question of whether the city shall continue to operate a municipal liquor store. Two weeks' notice, written in clear and easily understandable language, of the hearing must be printed in the city's official newspaper. Following the hearing the city council may on its own motion or shall upon petition of five percent or more of the registered voters of the city, submit to the voters at a general or special municipal election the question of whether the city shall continue or discontinue municipal liquor store operations by a date which the city council shall designate. The date designated by the city council must not be more than 30 months following the date of the election. The form of the question shall be: "Shall the city of (name) discontinue operating the municipal liquor store on (Month xx, 2xxx)?".

Depreciation / Captialization

The word capitalize means to record the amount of an item in a balance sheet account as opposed to the income statement.

(The accounts in the general ledger and in the chart of accounts consist of two types of accounts: balance sheet accounts and income statement accounts.)

To illustrate, let's assume that your company purchases a new computer printer for your office. Its cost is $700.

If your company is a small company, it might capitalize the cost of the printer.

That means the printer will be included in an equipment account and will be reported in the property, plant and equipment section of the balance sheet.

Its cost will be depreciated over the printer's useful life.

A larger company might decide that $700 is an immaterial amount and will not capitalize the printer as an asset. Rather, the large company will expense the printer immediately.

(This larger company might have a policy of not capitalizing any asset with a cost of less than $5,000 because of the materiality convention.

This is allowed because no reader of the financial statement is going to be misled because the $700 will appear as an expense in the year the printer is purchased instead of $140 in that year and $140 in each of the subsequent four years.)

Paul's Initial Review Order

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Gross Profit Percentage

*The percentage of money you've made from selling a good or service – **after** you subtract the cost of producing / obtaining that good or service.*

*You want that percentage to be as high as it can reasonably be. **The higher your gross profit percentage, the healthier your business** and the more profit you'll take home at the end of the day.*

Greed is Bad!

Making Money is Good!!!!!

Calculating Gross Profit Percentage

First, **add up your costs** of goods sold.

Let's say $77,000

Next, **calculate your gross profit dollars**.

Total revenue – cost of goods sold
$110,000 – $77,0000 = $33,000

Then, **calculate your gross profit percentage** by converting dollars to a percentage.

Gross profit / total revenue x 100
$33,000 / $110,000 x 100 = 30%

<u>Are Your Cost of Goods Numbers Accurate??</u>

Are invoices recorded in the system?

How are free goods handled?

What is the process for transfers between on and off sale?

Is quantity on hand accurate through cycle counting?

How are inventory adjustments made?

Impact Gross Profit Percentage

Quantity Purchase (Lower Cost of Goods Sold)

Joint Purchase of Spirits & Wine (Lower Cost of Goods Sold)

Bridge Buying (Lower Cost of Goods Sold)

Proprietary Brands (Lower Cost of Goods Sold)

Theft (Higher Cost of Goods Sold)

Overpouring (Higher Cost of Goods Sold)

Current Market Pricing (Increased Sales)

End in .99 (Increased Sales)

Ice (Increased Sales)

As a Percentage, Gross Profit IS DIFFERENT than Markup

The difference between mark-up and gross profit

The following information is presented per a request at one of the recent Regional MMBA Managers Conferences.

Markup (on the cost of an item) – Defined as the amount added to the **cost** of an item to determine its selling price. The markup is expected to cover all associated expenses and permit the operation to earn a reasonable return on the sale of a product. Markup is most often stated as a percentage of the **item cost.** (See Exhibit "A"):

Gross Profit (on the sale of an item) – Defined as the revenue from the **sale of an item** minus the cost of the item sold. Operating expenses (salaries, utilities, etc.) must be deducted from gross profit to determine **net-income (profit).** (See Exhibit "B":

> Note, in Exhibit "B" the Gross Profit is 33.3 percent while the markup is 50 percent. The **Gross profit percentage** is always less than the **markup percentage.** The markup percentage is based on the **original cost of the item.** The Gross Profit percentage is based on the **selling cost of the item.**

To further understand the process of analyzing Gross Profit, ask yourself the question, "How much Gross Profit, **in percentage,** will I make from the **sale** of an item?"

In the example, 33.3 percent Gross Profit ($5.00) was made on the sale of a $15.00 item. Remember, a markup of 50 percent ($5.00) was made to the item's original cost ($10.00) to determine the selling price ($15.00).

A common mistake is to apply the same markup percentage to all items within an operation – regardless of other factors, such as demand.

For example, markup on smaller bottles of product (375 ml, 200 ml, etc.) are generally higher than larger sizes (1 liter, 1.75 liter, etc.).

Exhibit "A"

$$\text{Markup \%} = \frac{\text{Amount added to the \textbf{Item Cost} to determine the selling price}}{\text{Item Cost}}$$

or

Markup x Item Cost = Amount added to the **Item Cost** to determine the selling price

As an example, if the cost of an item is $10.00, adding a markup of 50% ($5.00) will bring the selling price to $15.00.

$$50\% = \frac{\$5.00}{\$10.00}$$

or

$$50\% \times \$10.00 = \$5.00$$

Therefore, to determine the selling price:

$10.00	(original cost of item)
+ $5.00	(markup on cost of item)
$15.00	(selling price of item

Exhibit "B"

Continuing the example:

$15.00	(revenue from the product sale)
−$10.00	(original cost of the item)
$5.00	(Gross Profit on the sale of the item)

Note that the Gross Profit (on the **sale** of an item) is the same as the markup (on the **cost** of an item) **when comparing them monetarily.** However, if Gross Profit (on the **sale** of an item) and markup (on the **cost** of an item) are compared **using percentages, the figures are not the same.**

Gross Profit, stated as a percentage, is determined by dividing the Gross Profit on markup in dollars by the revenue from the **Product Sale**:

$$\text{Gross Profit \%} = \frac{\text{Gross Profit in \$ or markup in \$}}{\text{Revenue from the product sale}}$$

Therefore:

$$33.3\% = \frac{\$5.00}{\$15.00}$$

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Standard Minnesota Markups

Remember it is a guideline and can change based on demand, competition etc.

Pint and half-pint = 45% -50% (31% - 33% GP)

.750 = 35% - 40% (26% - 29% GP)

Liter and 1.75 = 33% - 38% (24% - 27% GP)

Cordials = 38% - 43% (27% - 29% GP)

6-pack = 38% - 43% (27% - 29% GP)

12-pack = 33% - 38% (24% - 27% GP)

24 -pack = 28% - 33% (21% - 24% GP)

Specialty Beer = 35% - 40% (26% - 29% GP)

Wines = 45% - 50% (31% - 33% GP)

Miscellaneous = 43% - 48% (30% - 32% GP)

Gross Profit Success Range

24% - 25% Off Sale

42% - 45% Combination

(Could change due to on sale & off sale mix)

In the Example….

Gross Profit Percentage Dropped aproximately .5%

2016 = 44%

2017 = 43.5%

(New management will be addressing overpouring & free drinks issues)

Paul’s Initial Review Order

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Labor to Sales Ratio

Labor Cost includes Wages, Salaries, Payroll Taxes, Retirement Contributions and everything else

Divided by Total Gross Sales

Industry Standard

10% Off Sale

25% Combination

Impact this number by increasing sales or adjusting regular or seasonal hours.

In the Example….

Labor Percentage Dropped aproximately $10,000 or 2%

2016 = 32%

2017 = 30%

(Had gross sales remained stable, 2017 percentage would have been 29.5% - Still Room for Improvement)

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Sales

Net Sales / Total Income / Sales (on State Auditor Report) *refers to the amount of* ***sales*** *engendered by a business after deducting the returns,* ***taxes****, allowances for damaged or missing goods, and any discounts allowed*

In the Example….

Total Income Dropped aproximately $11,000

2016 = $428,026

2017 = $417,136

But Net Income Went UP!!

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<u>Yes, This is Your Concern!!</u>

<u>Off Sale</u>

League of Minnesota Cities Insurance Trust

<u>On Sale</u>

Illinois Casualty Company

In the Example….

Insurance Increased

2016 = $11,564

2017 = $12,038

(Opportunity to save THOUSANDS of dollars!!!!)

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Other Expenses

Credit Card Fees

Freight

Entertainment

Office Supplies

Professional Fees

Advertising

In the Example….

Some Expenses Went Up & Some Went Down

Overall, expenses decreased over $17,000

Inventory Levels
(Located in Balance Sheet)

Overall

10% of gross sales for Metro

15% for Greater Minnesota

Varies by season


That's all Folks!