



**LIQUOR
DISTRIBUTION
BRANCH**

Brewery & Brewpub Record Keeping Guidelines

Information Memorandum (October 2021)

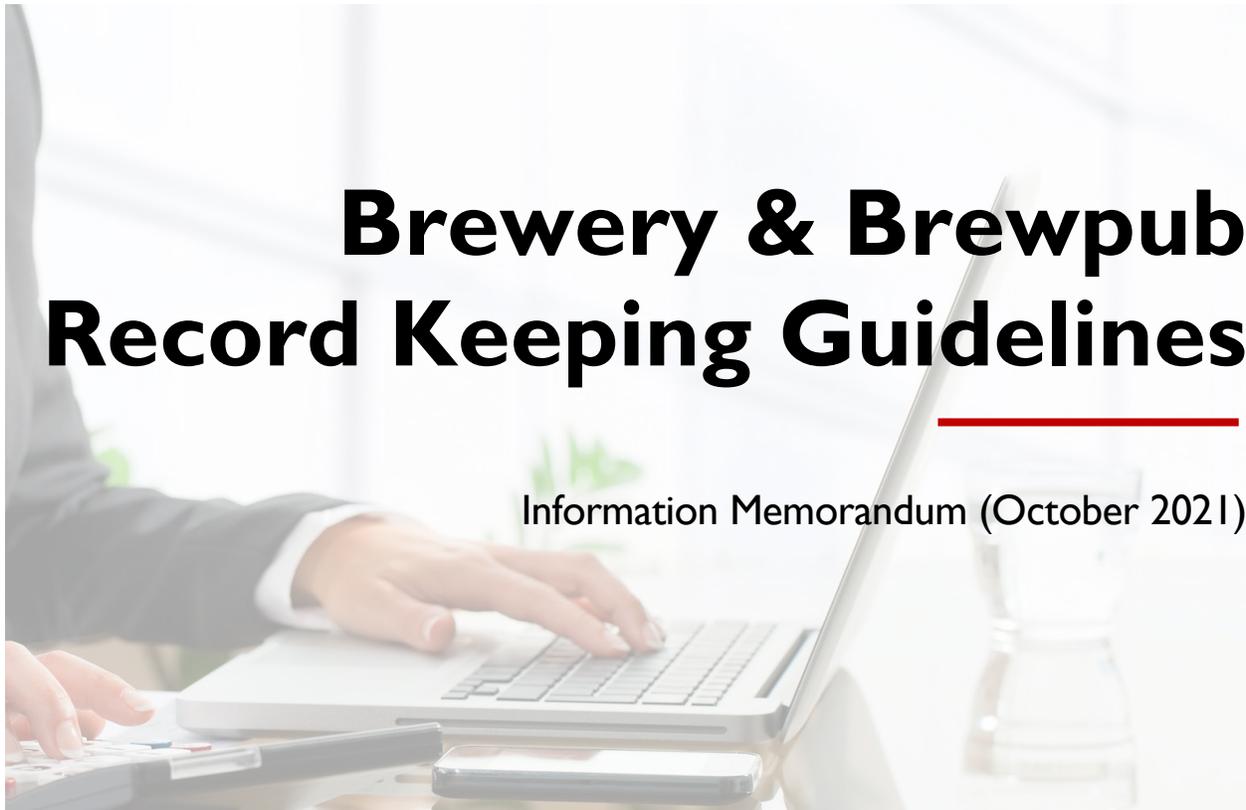


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I.0 Introduction

The purpose of this document, Brewery & Brewpub Record Keeping Guidelines (the “Guidelines”), is to provide guidance and support to breweries and brewpubs in order to comply with record-keeping requirements in the *Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product* (the “Agreement”) that eligible licensed breweries and licensed brewpubs (collectively the “Brewery”) enters into with the Liquor Distribution Branch (“LDB”).

Unless otherwise specified, the defined terms used in these Procedures have the meaning set out in the Definitions at Appendix B of the [Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product – Brewery](#) or the [Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product – Brewpub](#), as applicable.

According to the Agreement, the Brewery must create and retain records necessary for the Brewery’s type and size of business, to enable the Brewery to account for its product, how it was produced, and how it is disposed of. These records must be retained at the Brewery’s office in British Columbia (B.C.) and must be kept for a period of no less than six years following the end of each calendar year.

2.0 Shrinkage Allowance and Mark-up Assessment

The Agreement provides a shrinkage allowance for minor, unaccounted product losses such as sales reporting errors, breakage, disposal, theft, etc. Breweries that produce less than 350,000 hectolitres (HL) per year are given a shrinkage allowance of 0.5 per cent of the Total Calculated Product moved in B.C. in a given fiscal year.¹ Breweries that produce more than 350,000 HL per year are given a shrinkage allowance of 0.3 per cent of the Total Calculated Product moved in B.C. in a given fiscal year.

The brewery will not be charged mark-up for volumes within the LDB Shrinkage Allowance. However, unaccounted product in excess of the shrinkage allowance, which was in a Brewery's possession or control and cannot be accounted for by the Brewery, will be considered lost product and subject to mark-up.

Since the shrinkage allowance above is calculated on packaged products, it is important for the Brewery to ensure its records relating to product movement (including inventory level, production, transfers, sales, and deductions) are accurate. If records are incomplete or inaccurate, the Brewery will incur financial liability for mark-up on any amounts deemed to be lost product (see [section 2.1](#) for more information).

Example Calculation of Shrinkage Allowance:

In this example, the Brewery has an opening inventory of 45 HL. It produces 6,000 HL of beer during the fiscal year. It sells 80 HL of its beer into another province. It also receives a Canada Revenue Agency ("CRA") exemption for destruction of 250 HL of beer and an LDB exemption for 20 HL of beer that was lost by theft. The Brewery's year-end physical count results in 50 HL of physical inventory.

¹ The total calculated product moved in BC in a given financial year equals the total product available for sale within BC, less LDB exempted deductions, less CRA claimable deductions, and less closing physical inventory in that fiscal year, in accordance with the calculations set out in Exhibit B – Product Movement Summary of the Reporting Requirements and Procedures in Appendix A of the Agreement ("Total Calculated Product Moved in BC").

The Brewery's shrinkage allowance for the year is:

Product available for sale within BC:		
Opening inventory	45 HL	
+ Packaged production	+ 6,000 HL	
- Transfer to other province	<u>- 80 HL</u>	
		5,965 HL
Minus: Breakage/destruction/write-off exempted by CRA or LDB		
Exemption by CRA	250 HL	
+ Exemption by LDB	<u>+ 20 HL</u>	
		- 270 HL
Minus: Closing physical inventory		<u>- 50 HL</u>
Subtotal [Total Calculated Product moved within B.C.]		5,645 HL
Shrinkage allowance rate		
(<350,000 HL production per year)		x 0.5%
Shrinkage allowance		<u>28.23 HL</u>

2.1 Lost Product Assessment

The Brewery will not be assessed for mark-up on volumes within its permitted shrinkage allowance. However, volumes that exceed its shrinkage allowance that were in the Brewery's possession or control and cannot be accounted for by the Brewery will be considered lost product and subject to mark-up.

The mark-up can be assessed through the review of the Brewery's Annual Product Movements Summary Report (the "PMS") or by a compliance audit.

As part of the LDB's review of the PMS, the LDB may request the Brewery provide documents to support the values stated on the PMS. For example, the physical inventory count sheets may be required to prove that the year-end inventory count has been conducted. The Brewery must ensure the records are readily available upon LDB's request.

In the event of a compliance audit, the requested records will be reviewed in order to account for product movement. Please see [section 3.0 Specific Record Keeping Requirements](#). As per the Agreement, mark-up will be charged on lost product as if it had been sold at the LDB's established retail price. In addition, the Brewery will be charged for the container deposits, container recycling fees, and applicable taxes associated with the lost product.

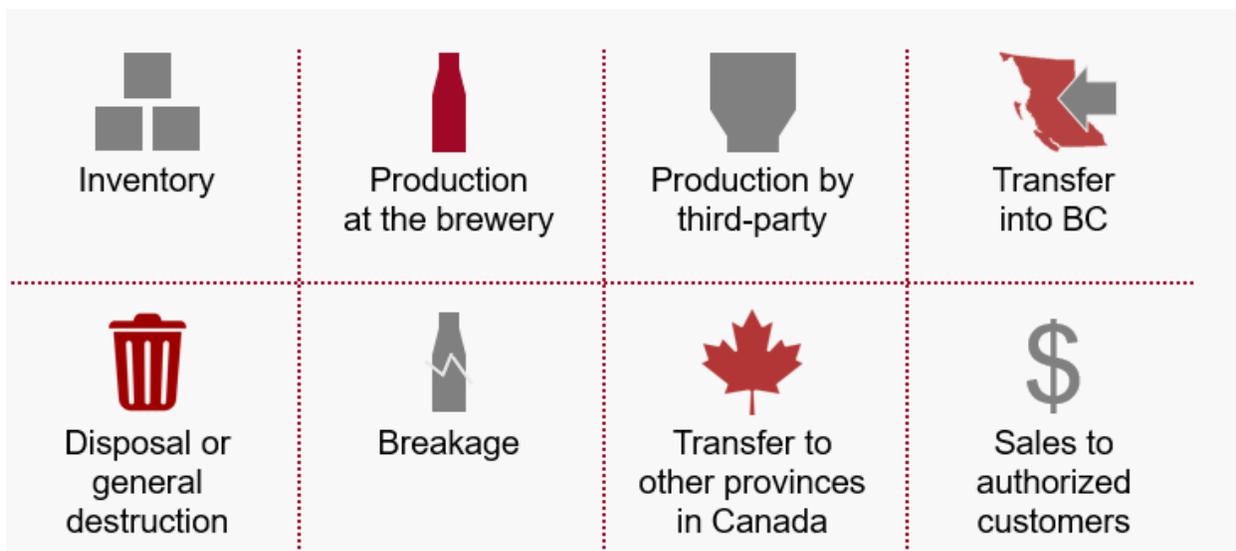
The LDB is authorized under [section 9\(1\) of the Liquor Distribution Act](#) to treat unaccounted liquor as if it has been sold by the Brewery. The Agreement elaborates on the manner in which LDB exercises this authority.

Extract from the Liquor Distribution Act:

Section 9(1) - "If the general manager [of the LDB] determines, from a review of the records kept by a manufacturer, manufacturer's agent, distributor or authorized importer, that a quantity of acquired liquor is unaccounted for, the general manager [of the LDB] may treat the quantity of the acquired liquor that is unaccounted for as having been sold to that manufacturer, manufacturer's agent, distributor or authorized importer under section 8."

3.0 Specific Record-Keeping Requirements

As set out in section 5 of the Reporting Requirements and Procedures in Appendix A of the Agreement, the Brewery must maintain and retain sufficient records so that any reasonable third party reviewing the records can determine certain information regarding the Brewery's packaged product. As discussed further below, that information relates to:



In the event of a compliance audit, the requested records will be reviewed in order to account for the Brewery's packaged product movement. The LDB will work with the Brewery to obtain the appropriate records; however, if the records that are/can be provided are incomplete and/or inconsistent, LDB may apply estimations of the missing quantity to the assessment.

3.1 Inventory

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding its inventory so that a reasonable third party reviewing them can determine:

"The amount you currently store anywhere in British Columbia, including identifying the specific Warehouses or locations where your Product is stored. As a Brewery, you are required to physically count your inventory at the close of business on March 31 each year. Also, you are required to retain your physical count sheets that clearly identify the product you counted at each of your Warehouse locations."

Records required in accordance with this clause include:

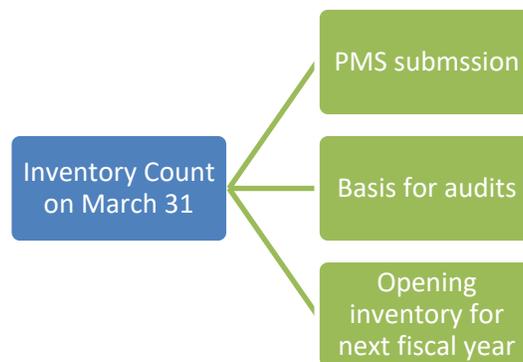
- the locations of all the warehouses in B.C. in which the Brewery's inventory is stored;
- a complete list of packaged Product available in each warehouse including product SKU, name, and quantity; and
- if the Brewery is a Brewpub, a complete list of pipeline Product available in every serving tank including product SKU, name, volume, and serving tank number.

The Brewery's book inventory is expected to accurately reflect the Brewery's physical inventory. In addition, the Brewery is required to conduct a complete physical inventory count at the close of business on March 31 each year.

The Brewery's physical inventory count sheets should include:

- for packaged product, its SKU, name, quantity, and location of each product;
- for pipeline product (applicable only to Brewpubs), its SKU, name, volume, and serving tank number;
- a comparison of physical count result with the book inventory; and
- investigation detail and adjustment as a result of any discrepancies of physical count and book inventory.

The inventory counted on March 31 will be used as the opening inventory for the next fiscal period beginning on April 1. It is important that the Brewery physically counts the inventory on March 31 and retains all of the above documentation as it may be used as a starting point for an audit and will be used in PMS submissions due on June 30 of each year.



If the Brewery fails to perform the physical inventory count on March 31 of each year, the Brewery will be in default under the Agreement, which could result in consequences including suspension or termination of the Agreement (see [section 7.0 Consequences of Non-Compliance](#)).

It is recommended that the Brewery conduct physical inventory counts and inventory reconciliations periodically (e.g. weekly, monthly, or quarterly) for inventory control purposes.

Example Inventory Count Sheet (For Reference Only):

MANUFACTURER Physical Inventory Count Sheet

Warehouse:	Manufacturing Site
Count Date:	MAR / 31 / 2020
Counted By:	STAFF

BCLDB SKU	Product Name	Location	Quantity (Cases)	Quantity (Units)
###-##	MANUFACTURER REF - PACKAGED...	Cooler A2	##	##

3.2 Production at the Brewery

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding its production so that a reasonable third party reviewing them can determine:

“The amount you produced in your Brewery.”

Records required in accordance with this clause include the following:

- Brewing records (brew sheets) with the following details:
 - batch or brew numbers;
 - product name and beer style (e.g. Pilsner, lager, IPA, etc.);
 - brewing date;
 - types and amount raw ingredients used (e.g. malts, grains, hops, sugar, juice, etc.);
 - fermentation volume;
 - finishing tank volume; and
 - records of any significant production loss or product disposal prior to packaging including the volume, date, and reason (e.g. dump due to quality issue, excessive sediment, accident, etc.).

- Packaging records with the following details:
 - batch or brew number related to a specific brew, traceable to specific brew sheet;
 - product name and/or SKU number, traceable to the LDB product registry if it is packaged product;
 - product configuration (e.g. 6 pack x .355 ml, Keg 50L etc.);
 - packaging date;
 - packaged volume;
 - any significant packaging loss and/or product disposal after packaging including the volume, date and reason (e.g. loss due to quality issue, breakage, short fill, etc.); and
 - changes in product packaging (e.g. serving tank beer transferred to keg/can).
- Details of each SKU registered to the Brewery with following details:
 - product name; and
 - location where the product was brewed.
- Excise duty brewer returns:
 - detailed supporting packaging records traceable against the Brewery's internal packaging records; and
 - copy submitted to the CRA.
 -
- Records of raw ingredients (e.g. malt and grain) including:
 - purchasing invoices issued by the supplier clearly indicating the vendor name, ingredient type, quantity, total cost, and shipment date (note that raw ingredient purchase and usage may be reviewed by the LDB during an audit to support the Brewery's production volume); and
 - it is recommended that the Brewery conducts raw ingredient counts on a regular basis to keep track of its raw ingredient inventory.
- Utility statements (e.g. water and electric bill):
 - note that utility usage, especially water, may be reviewed by the LDB during an audit to support the Brewery's production volume; and
 - it is in the best interest of the Brewery to document and investigate any excessive and irregular utility usage.

Note: Raw Ingredients and utility usage records will only be requested if alternative audit procedures are required to support production. The alternative audit procedures will be used if the Brewery has non-existent or unreliable records. Other instances may require a review of raw ingredients and water usage and will be assessed on a case-by-case basis.

3.3 Production by Third Party

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding production by a third party so that a reasonable third party reviewing them can determine:

"The amount a third party produced and/or bottled in British Columbia on your behalf."

Records required in accordance with this clause include:

- a list of third-party manufacturers that produce and/or bottle product on behalf of the Brewery; and
- documentation of the quantity of product that is produced and/or bottled by the third-party manufacturers including:
 - signed brewing agreement;
 - invoices received from the third party manufacturers; and
 - proof of payments made to the third party manufacturers.

The above records are expected to provide details such as product descriptions, product SKU, quantities shipped, packaging date and transfer date.

3.4 Transfer into BC

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding transfers into BC so that a reasonable third party reviewing them can determine:

“The amount of packaged beverage alcohol you transferred into British Columbia from a related brewery located elsewhere in Canada (if applicable).”*

For the purposes of the Agreement, “related brewery” means an affiliated brewery located outside of BC that has 10% or more common ownership with the Brewery. The Brewery is prohibited from transferring packaged product from non-related breweries outside of the province into BC.

Records required in accordance with the above clause include:

- a list of all related breweries located elsewhere in Canada; and
- shipping and/or receiving documents for any Product transferred into the Brewery’s warehouses in BC.

The above Records are expected to provide details such as product descriptions, product SKU, quantities shipped and receiving date.

3.5 Disposal, General Destruction and Breakage

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding disposal, general destruction and breakage so that a reasonable third party reviewing them can determine:

“The amount you disposed of for quality control purposes or general destruction (and which you reported to the CRA to recover the Excise Duties paid).”

“The amount you wrote off as a result of breakage or adjusted your inventory as a result of inventory counts.”

For disposal or general destruction, as applicable, records required in accordance with the above clauses include:

- destruction report/log by warehouse locations (see [example log](#) below);
- destruction certificates;
- destruction evidence (i.e. pictures, videos);
- approvals from CRA; and
- approvals from LDB.

Note: LDB expects the above records to provide details such as product descriptions, product SKU, quantities destroyed or disposed of, and date of destruction or disposal.

For breakage, records required in accordance with the above clauses include:

- supporting documents for the inventory adjustment (i.e. pictures or videos of damaged product);
- approvals from LDB; and
- report of breakage transactions that include, but not limited to, the following details:
 - transaction date;
 - breakage amount; and
 - reasons for the breakage.

Note: LDB expects the above records to provide details such as product descriptions, product SKU, quantities destroyed or disposed of, and date of destruction or disposal.

Example Inventory Destruction Log (For Reference Only):

MANUFACTURER Internal Inventory Destruction Log

Location:	Manufacturing Site
Date of Destruction:	SEPT / 30 / 2020

BCLDB SKU	Product Name	Unit size	Reason for Destruction	Quantity (Units)
#####	MANUFACTURER – PACKAGED...	1 x 50ml	Stale Date	##
#####	MANUFACTURER – PACKAGED...	6 x 355ml	Packaging	##
#####	MANUFACTURER – PACKAGED...	50L keg	Damage	##

_____/_____

Destroyed By / Date

_____/_____

Supervisor/Manager / Date

LDB Exempted Deductions:

If an unusual event occurs at the manufacturing facility or warehouse which results in product loss, the Brewery may ask the LDB to exempt the resultant loss from any mark-up assessment for lost product.

The LDB will consider granting such an exemption in unusual circumstances, including, for example, where:

- disposal is required due to a product recall, stale-dated product, or packaging errors;
- general destruction is required due to a large accumulation of unsaleable returns; or
- breakage is caused by a major forklift accident in the warehouse or a collapse of shelving.

In order to receive an LDB exempt deduction, the Brewery should seek approval from the LDB by email to regemail@bcldb.com. In the case of destruction or disposal, LDB's approval should be sought before any destruction or disposal takes place. For losses that arise from breakage, the Brewery should take photographic or video evidence of the loss. After receiving the request, the LDB will provide guidance to the Brewery regarding the proof of loss required. The LDB will then review the documentation submitted and provide approval if the request is eligible for the exemption.

3.6 Transfer to Other Provinces in Canada

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding transfer to other provinces so that a reasonable third party reviewing them can determine:

“The amount that you shipped to other provinces of Canada including sufficient documentation to clearly evidence that this product physically left British Columbia.”

Records required in accordance with this clause include:

- shipping documents that indicate which product left BC (e.g. bills of lading); and
- receiving confirmations from the recipient provinces.

The above records are expected to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

The LDB may confirm product shipped to other liquor jurisdictions within Canada through third party verification.

3.7 Sales to Authorized Customers

As provided in Appendix A, section 5 of the Agreement, the Brewery is required to maintain and retain sufficient records regarding sales to authorized customers so that a reasonable third party reviewing them can determine:

“The amount that you sold to your authorized customers in BC.”

Records required in accordance with this clause include:

- a list of the Brewery's authorized customers;
- sales records and documentation (e.g. sales invoices, receipts, POS records, sales system reports); and
- sales records and documentation.

The above records are expected to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

Note: This clause only refers to the internal sales records that the Brewery is expected to keep. In addition to the internal sales records, the Brewery is also required by the Agreement to report its direct sales to the LDB on a weekly basis. Direct sales reporting requirements can be found in Appendix A of the Agreement.

It is important that the Brewery to ensure its direct sales reported are complete and accurate. It is recommended that the Brewery regularly (i.e. weekly) compare internal sales records to what has been reported to the LDB.

Failure to provide the sales reports as required under the Agreement is an Event of Default, which could result in consequences including suspension or termination of the Agreement (see [section 7.0 Consequences of Non-Compliance](#)).

3.8 Returns from Authorized Customers

As returns from authorized customers will be added to the amount of available inventory, the Brewery is required to maintain and retain sufficient records as per the requirement detailed in the previous section, [3.7 Sales to Authorized Customers](#).

In the event of the Brewery decides to dispose returned products, the Brewery should follow the requirement detailed in [3.5 Disposal, General Destruction or Breakage](#) to maintain and retain the records.

4.0 Promotional, Tasting or Sampling Products

As provided in Appendix A, section 2.3.1 of the Agreement:

“Any packaged beverage alcohol including growlers you use for promotional, tasting or sampling purposes or provide to your employees or customers must be purchased from your on-site store or another authorized retailer. If the Product for sampling or tasting was taken from your Brewery inventory, it must be reported by the Brewery as a sale to your on-site store.”

This clause requires the Brewery to report product consumed or used for any of the following purposes, as if the product has been sold to the Brewery’s on-site store:

- promotional activities;
- tasting;
- sampling; and
- provided to employees and customer (for their own consumption).

The Brewery should not write-off any product that is consumed without reporting the sales to the LDB. Detailed sales reporting requirements can be found in Appendix A of the Agreement.

Note: The Brewery cannot gift its product to any wholesale customer, hospitality customer or Special Event Permit (SEP) permittee for reselling purposes. This practice is strictly prohibited under Section 9 of the Agreement regardless of whether the Brewery is reporting the product gift as a sale or not.

5.0 Other Records to Retain

[Section 3.0 Specific Record-Keeping Requirements](#) discusses the **minimum records** that the Brewery should retain. During the course of compliance audits, additional records may be requested to support the amount of the product reported by the Brewery. Therefore, the Brewery should also retain the following records for at least six years.

Other records to retain:

- accounting system general ledger;
- Brewery's insurance policy;
- excise audit reports received from the CRA (if any); and
- documents to prove products have been exported out of Canada (as applicable):
 - customs forms (e.g. Form B13A, Export Declaration or Form K36A, Ship's Stores Declaration and Clearance Certificate);
 - transportation documents (e.g. bills of lading, pro-bill or waybill);
 - customs brokers' or freight forwarders' invoices;
 - landing certificate issued by port authorities of the country to which the product was exported;
 - import documentation required by the country to which the product was exported; and
 - proof of sales (e.g. commercial invoices, purchase agreements, purchase orders, proof of payment).

The above export records are expected to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

6.0 Payment for Product

The Agreement sets out the following requirement with respect to payment for product:

“You must obtain from each Wholesale Customer, Hospitality Customer and Special Event Permittee full payment for all Product sold prior to transferring possession of such Product to the purchaser, unless otherwise authorized by the LDB.”

This clause prohibits the Brewery from selling products on credit notes or giving away product to any wholesale customer, hospitality customer or SEP permittee at any time without payment.

The Agreement requires the Brewery to **obtain full payment** (via direct sales) for all packaged product sold prior to transferring possession of the product to the above mentioned customers, unless otherwise authorized by the LDB. All direct sales transactions should be dated by the shipment day (instead of the day of payment receipt) and submitted to the LDB with the associated direct sales reporting per [section 3.7](#) above.

7.0 Consequences of Non-Compliance

As provided in the Agreement:

“If any inspection or audit of your Licensed Establishment, Warehouse, Records, Sales Reports or Excise Documents discloses that you have acted in a manner contrary to the terms and conditions of this Agreement, you must pay us the expenses associated with the inspection or audit, and any payment assessed as due and owing as a result of your failure to comply, as determined by the LDB using reasonable audit standards.”

This clause provides that if the Brewery is found to be non-compliant with the Agreement, they are required to make payments for:

- costs and expenses of the inspection or audit; and
- any mark-up assessed by LDB.

In the event a Brewery is found to be in non-compliance with the Agreement (such as, improper record-keeping), LDB will generally provide the Brewery with a 30-day notice to remedy the issue (e.g. remit payment assessed, provide a plan to improve record-keeping practices). The LDB will support the Brewery through this process by providing guidance to bring the Brewery into compliance and maintain compliancy going forward. Upon the happening of an Event of Default, the LDB may elect to do any one or a combination of the following actions:

- provide a further time period in which to remedy the Event of Default;
- seek reimbursement for expenses (e.g. for NSF) the LDB incurs as a result of the Event of Default;
- charge interest on overdue accounts in accordance with applicable laws;
- report non-compliance with the Agreement to the Liquor and Cannabis Regulation Branch;
- withhold registration of any new product;
- require the Brewery to provide a letter of credit from its financial institution;
- pursue any remedy or take any other action available to it at law or in equity;
- suspend the Agreement thereby suspending the Brewery’s authorization to conduct any direct sales or delivery within BC; and/or
- terminate the Agreement thereby revoking the Brewery’s authorization to conduct any direct sales or delivery within BC.

8.0 References

Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product - Brewery

Available at: http://www.bcldb.com/files/Brewery_Sales_Agreement.pdf

Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product - Brewpub

Available at: http://www.bcldb.com/files/Brewpub_Sales_Agreement_0.pdf

Liquor Distribution Act

Available at: https://www.bclaws.ca/civix/document/id/complete/statreg/96268_01

For any additional inquires, please contact:

LDB Regulatory & Compliance by email at regemail@bcldb.com