

Inventory 101: Definitions, Requirements, and Best Practices

Review your TTB obligations for inventory tracking, how to manage inventory processes, and how DISTILL x 5 makes it easy to stay sane.



So what is inventory anyway?

- The word “inventory” can mean different things to different people.
- The TTB’s definition of “inventory” may differ from an accountant’s or a distiller’s, so it’s important to clarify when talking inventory.
- Botanicals vs. glass bottles vs. spirits

TTB's Inventory

- We immediately think spirits. Which is true.
- The CFR requires inventories of bulk spirits and wine to be taken at various points throughout a calendar year.
- TTB also looks for records of other inventory items at your DSP:
 - Liquor Bottles
 - Fermentables/nonalcoholic materials for production
 - Denatured spirits, articles, spirits residues
 - Beer, Wine, Cider
- [27 CFR Subpart V – Records and Reports](#)



Definitions

- Bulk Distilled Spirits – distilled spirits in a container having a capacity in excess of one wine gallon
- Container - A receptacle, vessel, or form of bottle, can, [package](#), tank or pipeline (where specifically included) used or capable of being used to contain, store, transfer, convey, remove, or withdraw spirits and [denatured spirits](#).
- Package – Cask or barrel or similar wooden container, or a drum or similar metal container.

Inventory Obligations

- At a minimum, the CFR requires quarterly inventories to be taken for bulk spirits and wines:
 - Production (Unfinished Spirits)
 - Storage
 - Processing
 - Denatured Spirits
- TTB can require inventory to be taken at any time



Production Inventory

- [27 CFR 19.312](#) states that DSPs “must take physical inventory of the spirits and denatured spirits...at the close of each calendar quarter.”
- Record on Production Report at ends of quarters (Mar, June, Sept, Dec)
- Line 17 (a) – Record spirits and denatured spirits received for redistillation
- Line 17 (b) – Record all other unfinished spirits
- Spirits that are finished, should be moved into storage

12. WITHDRAWN FOR RESEARCH, DEVELOPMENT, OR TESTING ²		0	0	0	0	0
13.		0.00	0.00	0.00	0.00	0.00
14. PRODUCED (Total, Lines 1 through 13)		516.50	0	0	0	0
15. RECEIVED FOR REDISTILLATION ³		0	0	0	0	0
16. ⁴		0.00	0.00	0.00	0.00	0.00
17. PHYSICAL INVENTORY- END OF CALENDAR QUARTER	(a) RECEIVED FOR REDISTILLATION ³		0		0	0
	(b) UNFINISHED SPIRITS	0.00	0.00	0.00	0.00	0.00

PART II - PRODUCTION OF ALCOHOL AND SPIRITS OF 190° OR MORE OF PROOF, BY KIND OF MATERIAL USED

PART III - PRODUCTION OF WHISKY BY KIND AND COOPERAGE USED

KIND OF MATERIAL (a)	PROOF GALLONS (b)	KIND (a)	PROOF GALLONS NEW COOPERAGE (b)	PROOF GALLONS USED COOPERAGE (c)	PROOF GALLONS DEPOSITED IN TANKS (d)	
1. GRAIN	0	1. BOURBON	516.50	0	0	1. GRAIN
2. FRUIT	0	2. CORN	0	0	0	2. ALL OTHERS
3. MOLASSES	0	3. RYE	0	0	0	3. NEW COOPERAGE
4. ETHYL SULFATE	0	4. LIGHT	0	0	0	4. ALL OTHERS
5. ETHYLENE GAS	0	5.	0	0	0	5.
6. SULPHITE LIQUORS	0	6.	0	0	0	6.
7. FROM REDISTILLATION	0	7.	0.00	0.00	0.00	7.
8.	0	8.	0.00	0.00	0.00	8.

¹Does not include spirits withdrawn for experimental or research use under 26 U.S.C. 5312; report these at line 12.

²Show withdrawals under 26 U.S.C. 5214(a)(10), 5373(b)(4) , or 5312.

³Does not include recovered denatured spirits or articles returned for restoration and/or denatured under 27 CFR 19.683; such materials should be reported on TTB F 5110.43, Monthly Report of Production Operations. Imported spirits received for redistillation will be identified as such and reported separately.



Storage Inventory

- [27 CFR 19.333](#) states that DSPs “must take a physical inventory of all spirits and wine held in the storage account in tanks and other containers (except packages)...”
- Only bulk spirits and wine
- Packages (barrels) do not need to be inventoried on a quarterly basis – could you imagine?!

Processing Inventory

- Processing encompasses both bulk spirits and wine, as well as bottled spirits. These have different inventory requirements.
- [27 CFR 19.371](#) states that DSPs “must take physical inventory of all wines and bulk spirits (except packages)...at the close of each calendar quarter.”

Processing (Denaturing) Inventory

- [27 CFR 19.394](#) states that DSPs “must take physical inventory of all denatured spirits in the processing account at the close of each calendar quarter.”

Counting Liquid

- To take inventory of bulk spirits and wines, you must gauge your spirits.
- “Book value” vs. physical inventory
- Opportunity to reconcile with reports



Gauges

- When gauging your spirits for inventory, be sure to follow the same gauge requirements outlined in:
 - [27 CFR 19.618](#): Gauge Record
 - [27 CFR 19.619](#): Package Gauge Record
 - [27 CFR 19.284](#): Quantity determination of bulk spirits

Bottled Spirits Inventory

- [27 CFR 19.372](#) states that DSPs “must take an inventory of bottled and packaged spirits in the processing account for the return periods end June 30 and December 31 of each year.”
- Semi-annual
- Possible to have different inventory periods if approved by TTB

More than just “How Many?”

- In addition to counting the number of bottles you have in inventory, check for regulatory compliance:
 - Are bottles cased?
 - Avoid uncased product when possible
 - Remnant cases filled and closed (if applicable)
 - Are cases marked appropriately? (27 CFR 19.496)
 - Bonded and Tax-Paid bottles kept separate?

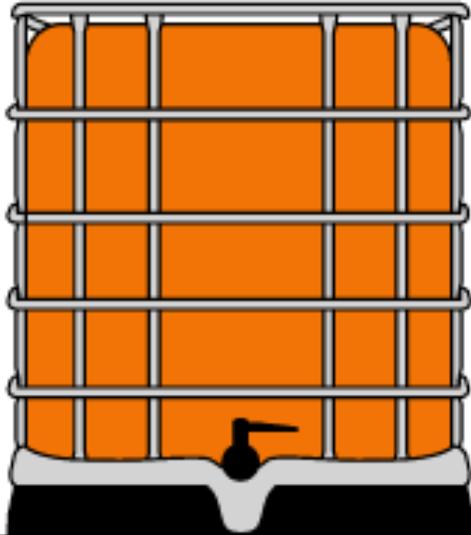
Inventory Recap

- Quarterly Inventory of Bulk Spirits and Wine (except packages) in:
 - Production
 - Storage
 - Processing
 - Denatured Spirits
- Semi-Annual Inventory of Bottled Spirit

Common Issues

- TTB has a page dedicated to common issues found during audits at <https://www.ttb.gov/distilled-spirits>
- Most frequent violation is lack of signature and perjury statement: [27 CFR 19.45](#)
 - *I declare under the penalties of perjury that this [insert type of document, such as report, or claim], including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.*

- Inventory summaries missing information: [27 CFR 19.623](#)
 - Date of inventory
 - Identity of containers
 - [Kind](#) and quantity of spirits, denatured spirits, and wines
 - Any losses (theft, voluntary destruction, etc), gains or shortages
 - Signature/Perjury statement
- DSPs often miss the kind of spirits, container identification, and the date.
- Forgetting to reconcile against reports (logging your actual losses/gains)
- **Batch Actions > Recalibrate** for the win!



ST PC

T4

RUM - AGED VI

500.00 gal @ 118.00° pf
590.00 pf-gal

BATCH NAME:

20200618-ST-001

ALCOHOL:

118.00° PF

RECALIBRATE DATE / TIME

2020-06-22

3 pm

12

SET CURRENT DATE / TIME

RECAL QUANTITY

498

UNIT ?

Gallons (gal)

RECAL ALCOHOL

119.5

UNIT

Proof (pf)

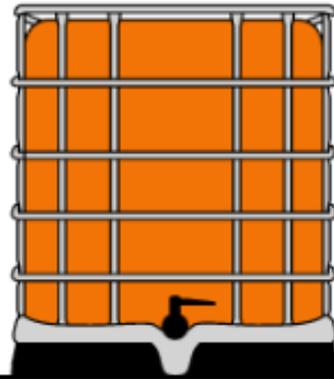
RECAL NOTE



June 2020 Physical Inventory|

CONFIRMATION: RECALIBRATE BATCH

20200618-ST-001



ST PC

T4

RUM - AGED VI

500.00 gal @ 118.00° pf
590.00 pf-gal

	VOLUME	ALCOHOL CONTENT	PROOF GALLONS
BEFORE	500.00 gal	118.00° pf	590.00 pf-gal
	↓	↓	↓
AFTER	498.00 gal	119.50° pf	595.11 pf-gal
DIFFERENCE			+ 5.11 pf-gal

The calculated **5.11 pf-gal gain** will be reported for this **Bulk Storage** batch to keep monthly reports balanced and accurate. This action should only be performed by users with a thorough understanding of Monthly Reports and their requirements.

CONFIRM

CANCEL

Best Practices for Spirits Inventory

- Train your staff and have regular reviews of requirements; specifically [27 CFR 19.623](#)
- Create a template for inventory for staff to use
- Create new employee onboarding/SOP documentation to address employee turnover or employee PTO (internal wiki)
- Keep inventory responsibilities with 1-2 individuals, schedule accordingly
- Daily recordkeeping/data entry to catch issues as they occur.

Spicoli's Specialty Spirits

Date: 6/23/2020

Physical Inventory

Performed By: J. SPICOLI

Container:	ID:	Class/Type:	Book Value:	Gauge Value:	Gain/Loss:	Reason/Notes:
BEER WELL 01	BEER	n/a	0	0	0	beer, not spirit
BOTTLING TANK 01	BT01	bourbon whiskey	312pg	312 pg	0	
CONTINUOUS STILL 01	CS01	n/a	0	0	0	empty
Ferment 01	FT01	n/a	0	0	0	wash, not spirit
Ferment 02	FT02	n/a	0	0	0	wash, not spirit
Ferment 03	FT03	n/a	0	0	0	wash, not spirit
DISTILLATE HEADS 01	HEAD	gin	100 pg	99.8 pg	0.2 pg - loss	loss during transfer not previously recorded, logged in Dx5 6/23/20
DISTILLATE HEARTS 01	HRT01	gin	122pg	122pg	0	
Mash Cook 01	MC01	n/a	0	0	0	empty
Pot Column	PC	n/a	0	0	0	empty
Pot Still	POT	n/a	0	0	0	empty
Receiving Tote	RT	neutral grain spirits	500 pg	500 pg	0	
SPIRIT VESSEL 01	SV01	rye whiskey	212 pg	212.5 pg	0.5 pg gain	gauging error, unproofed, logged in Dx5 6/23/20
SPIRIT VESSEL 02	SV02	n/a	0	0	0	empty
SPIRIT VESSEL 03	SV03	n/a	0	0	0	empty
Tote 1	T1	n/a	0	0	0	empty
Tote 2	T2	n/a	0	0	0	empty
DISTILLATE TAILS 01	TAIL	whiskey	122 pg	122 pg	0	whiskey tails

I declare under the penalties of perjury that this Physical Inventory, including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.

Signature: Jeffery Spicoli	Date: 6/23/2020
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So what about my botanicals and bottles?

- Inventories of raw materials and supplies are equally important!
- No CFR requirement, but a business/financial requirement
- DISTILL x 5 Inventory Reports

Raw Materials

- Count inventory, reconcile against Dx5
- Confirm suppliers, costs, review transactions
- Confirm Monthly Production Report of Operations – Part VI Materials Used
- Malt vs Wheat, etc.

ADJUST RAW MATERIAL QUANTITY
2 ROW BARLEY
DISTILLED SPIRITS PLANT

CURRENT: 250,099.00 POUNDS(S)

ADJUSTMENT DATE / TIME *

2020-06-24

9 am v : 56 v

[⊕ SET CURRENT DATE / TIME](#)

ADJUSTMENT TYPE *

Addition

Depletion

Recalibration

QUANTITY * CONTAINER *

100 Sack(s) / 50.00 Pounds per v

BOL DOCUMENT UPLOAD

-- choose file --

NOTE

Physical Inventory 6/30/2020

Supplies

TAX-STATUS	INVENTORY CT	WINE GALLONS	PROOF GALLONS
BONDED	2,605.83 Case(s)	3,097.75 gal	2,849.93 pf-gal
TAX-PAID	101.67 Case(s)	120.86 gal	111.19 pf-gal
TOTAL	2,707.50	3,218.61 OF 120.86 GAL	2,961.12 GAL

▼ ATTACHED SUPPLIES (5)					
SUPPLY	SUPPLIES / ITEM	CURRENT INVENTORY	REORDER ALERT	LEAD TIME	AVERAGE UNIT COST
Bottle - 750mL	1 / 1	1,538 Unit(s)	Not Set	2 weeks	\$0.00
Box - 750mL Case	1 / 6	19,617 Unit(s)	Not Set	Not Set	Not Available
Cork - 750mL	1 / 1	254,955 Unit(s)	Not Set	Not Set	\$0.00...
Label - Bourbon Wrap	1 / 1	1,759,010 Unit(s)	Not Set	Not Set	\$0.25...
Sleeve - 750mL	1 / 1	268,959 Unit(s)	Not Set	2 days	\$0.17
SUPPLY TOTAL COGS:					\$0.42

- Count, reconcile against Dx5
- Confirm suppliers, cost, transactions
- Attached supplies to control inventory, manage COGS

Best Practices for Inventory

- DISTILL x 5 for reporting, management, automation
- Encourage mobile device use for Dx5, or create paper worksheets/clipboard
- Create a template for inventory for staff to use
- Schedule inventories at regular intervals throughout the year
- Build a culture around accountability
 - Log data when it occurs
 - Let people make mistakes, but use as learning opportunities
 - Build honesty and trust with staff
- One size doesn't fit all



For additional questions or clarifications, email
support@fx5solutions.com

Thank You!



Sources Cited

- “Common Compliance and Tax Issues Found During Distilled Spirits Plant (DSP) Audits,” TTB.gov, July 11, 2016, <https://www.ttb.gov/distilled-spirits/common-compliance-and-tax-issues-surrounding-distilled-spirits-plant-dsp-audits>

