



**LIQUOR
DISTRIBUTION
BRANCH**

Distillery Record Keeping Guidelines

Information Memorandum (October 2022)

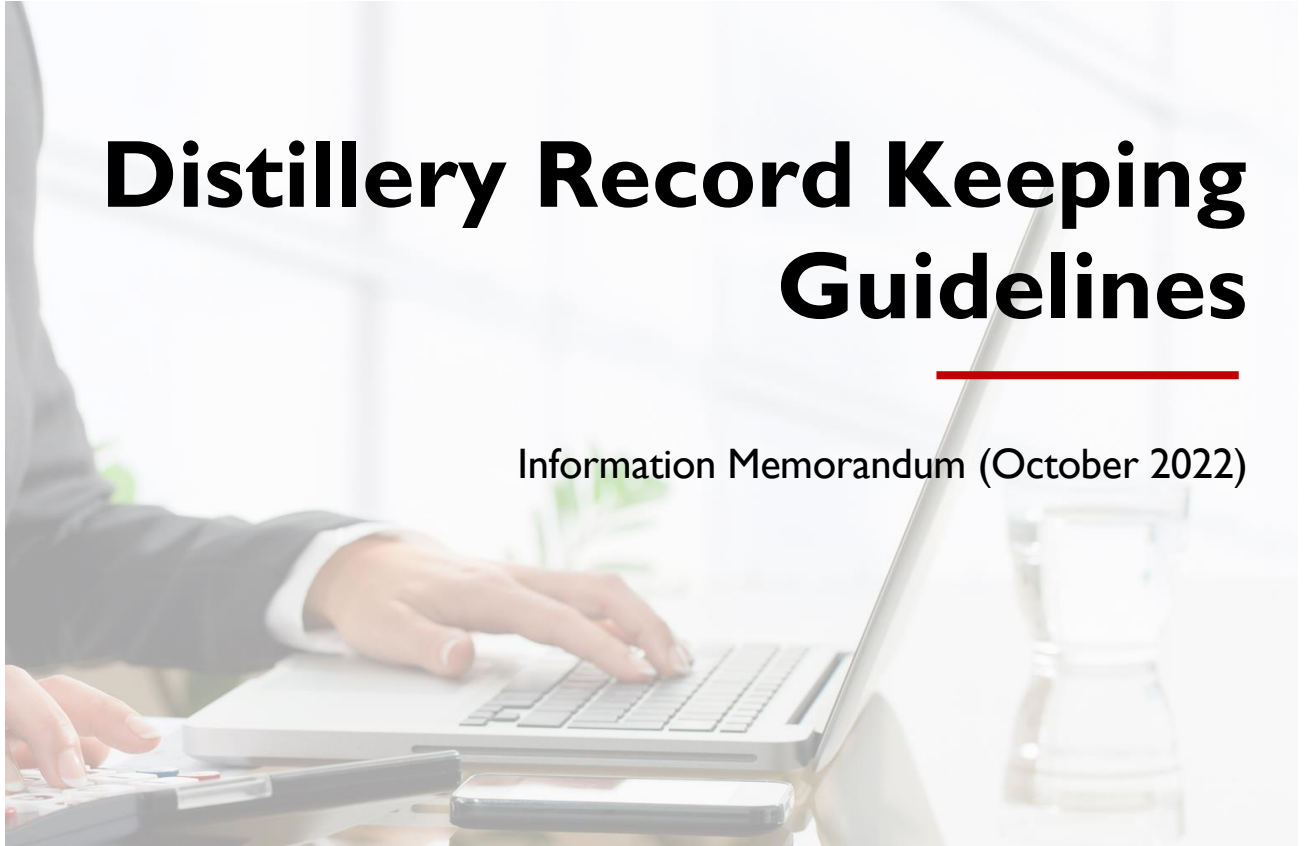


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I.0 Introduction

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

Unless otherwise specified, the defined terms used in these Guidelines 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 – Commercial Distillery](#) as applicable.

According to the Agreement, the Distillery must create and retain the records necessary for the Distillery’s type and size of business to enable the Distillery to account for its product, how it was produced, and how it is disposed of. These records must be retained at the Distillery’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, and theft, etc. Distilleries are given a shrinkage allowance of 0.5% of the Total Calculated product moved in B.C. in a given fiscal year.

The Distillery 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 Distillery’s possession or control and cannot be accounted for by the Distillery, 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 Distillery 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 Distillery 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 Distillery has an opening inventory of 2,500 L. It produces 30,000 L of spirit during the fiscal year. It sells 900 L of its spirit into another province. It also receives a Canada Revenue Agency (“CRA”) exemption for destruction of 250 L of spirit and an LDB exemption for 72 L of spirit that was lost by theft. The Distillery’s year end physical count results in 3,000 L of physical inventory.

The Distillery’s shrinkage allowance for the year is:

Product available for sale within BC:		
Opening inventory	2,500 L	
+ Packaged production	+ 30,000 L	
- Transfer to other province	<u>- 900 L</u>	
		31,600 L
Minus: Breakage/destruction/write-off exempted by CRA or LDB		
Exemption by CRA	250 L	
+ Exemption by LDB	<u>+ 72 L</u>	
		- 322 L
Minus: Closing physical inventory		<u>- 3,000 L</u>
Subtotal [Total Calculated product moved within B.C.]		28,278 L
Shrinkage allowance rate		x 0.5%
Shrinkage allowance		<u>141 L</u>

2.1 Loss Product Assessment

The Distillery 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 Distillery's possession or control and cannot be accounted for by the Distillery will be considered lost product and subject to mark-up.

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

When the LDB reviews the PMS, the LDB may request the Distillery 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 Distillery must ensure the records are readily available upon LDB's request.

In the event of a compliance audit, the 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 Distillery 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 Distillery. 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 Distillery must maintain and retain sufficient records so that any reasonable third party reviewing the records can determine certain information regarding the Distillery’s packaged product. As discussed further below, that information relates to:



In the event of a compliance audit, the records will be thoroughly reviewed in order to account for the Distillery’s packaged product movement. The LDB will work with the Distiller to obtain the appropriate records; however, if the records 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 Distillery 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. As a manufacturer, 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:

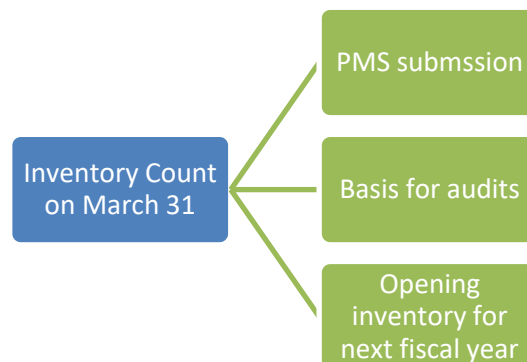
- the locations of all the Warehouses in BC in which the Distillery's inventory is stored; and
- a complete list of packaged product available in each Warehouse including product SKU, name, and quantity.

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

The Distillery's physical inventory count sheets should include:

- for packaged product - SKU, name, quantity, and location of each product;
- a comparison of physical count result with the book inventory; and
- investigation detail and adjustment as a result of the 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 very important that the Distillery 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 your PMS submissions due on June 30 of each year.



If the Distillery fails to perform the physical inventory count on March 31 of each year, the Distillery 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 Distillery 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 - PACKAGED...	Cooler A2	##	##

3.2 Production at the Distillery

As provided in Appendix A, section 5 of the Agreement, the Distillery 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 Licensed Establishment.”

Records required in accordance with this clause include:

- Production records with the following details:
 - batch number,
 - batch date,
 - product name,
 - product category (e.g. gin, vodka, spirit-based refreshment beverages, etc.),
 - types and amount of raw ingredients used (e.g. fruit, malts, NGS, sugar, etc.),
 - fermentation tank volume,
 - distillation record,
 - storage tank, barrel, and tote volume,
 - product specific production record (e.g. proofing of spirits, flavor adding and blending record)
 - record of any significant production loss or product disposal prior to packaging including the volume, date, and reason (e.g. dump due to quality issue, accident, etc.);

- Packaging records with the following details:
 - batch number related to specific production, traceable to specific production sheet,
 - product name and/or SKU number, traceable to the LDB product registry if it is packaged product,
 - product configuration (e.g. 750ml x12 bottles, 2L keg, 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.),
- Details of each SKU registered to the Distillery with the following details:
 - product name,
 - location where the product was produced;
- Excise duty returns:
 - detailed supporting packaging records traceable against the Distillery's internal packaging records, and
 - copy submitted to the CRA;
- Records of bulk spirits and NGS purchasing including:
 - invoices issued by the supplier clearly indicating the vendor name, spirits type, quantity, total cost, and shipment date; and
- Records of raw ingredients (e.g. fruit, honey, 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 Distillery's production volume,
 - and it is recommended for the Distillery to conduct raw ingredient counts on a regular basis to keep track of its raw ingredient inventory).

Note: Raw ingredients records will only be requested if alternative audit procedures are required to support production. The alternative audit procedures will be used if the Distillery has non-existent or unreliable records. Other instances may require a review of raw ingredients 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 Distillery 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 Distillery; and
- documentation of the volume/quantity of product that is produced and/or bottled by the third party manufacturers including:
 - signed production agreement,
 - invoices received from the third party manufacturers,
 - proof of payments made to the third party manufacturers.

LDB expects the above records to provide details such as product descriptions, product SKU, quantities shipped, packaging date, and transfer date.

3.4 Disposal, General Destruction, or Breakage

As provided in Appendix A, section 5 of the Agreement, the Distillery 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, breakage or general destruction.”

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 are 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 Distillery 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 shelving collapse.

In order to receive a LDB exempt deduction, the Distillery 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, please ensure to take photographic or video evidence of the loss. After receiving the request, the LDB will provide guidance to the Distillery 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.

3.5 Transfer to Other Provinces in Canada

As provided in Appendix A, section 5 of the Agreement, the Distillery 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 out of British Columbia 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 British Columbia (e.g. bills of lading); and
- receiving confirmations from the recipient provinces.

LDB expects the above records 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.

3.6 Sales to Authorized Customers

As provided in Appendix A, section 5 of the Agreement, the Distillery 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 you sold to your authorized customers in British Columbia.”

Records required in accordance with this clause include:

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

LDB expects the above records 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 Distillery is expected to keep. In addition to the internal sales records, the Distillery 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 for the Distillery to ensure its direct sales reported are complete and accurate. It is recommended that the Distillery 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](#)).

3.7 Returns from Authorized Customers

As returns from authorized customers will be added to the amount of available inventory, the Distillery is required to maintain and retain sufficient records as per the requirement detailed in the previous section, [3.6 Sales to Authorized Customers](#).

In the event the Distillery decides to dispose of the returned products, the Distillery should follow the requirement detailed in [3.4 Disposal, General Destruction or Breakage](#) to maintain and retain the records.

4.0 Promotional, Donations or Sampling Products

As provided in Appendix A, section 2.4.1 of the Agreement:

“You may use Product for sampling and/or to provide to employees even if you do not have a Manufacturer On-site Store. If you have a Manufacturer On-site Store, all Product used for any of those purposes must be reported as a sale to your Manufacturer On-site Store using your Commercial Distillery store number. If you do not have a Manufacturer On-site Store and Product is taken from your Commercial Distillery inventory for sampling and/or to provide to employees, it must be reported as a sale using your Commercial Distillery store number.”

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

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

The Distillery 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 Distillery cannot gift its product to any Wholesale Customer for reselling purposes. This practice is strictly prohibited under Section 6 of the Agreement regardless of whether the Distillery 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 Distillery should retain. During the course of compliance audits, additional records may be requested to support the amount of the product reported by the Distillery. Therefore, the Distillery must additionally retain the following records for at least six years.

Other records to retain:

- accounting system general ledger;
- Distillery'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).

LDB expects the above export records to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

6.0 Payment of Product

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

“You must obtain from the Wholesale Customer full payment that is due and owing to the LDB for all Product sold on Consignment, unless otherwise authorized by the LDB.”

This clause states that the Distillery is not allowed to sell products on credit notes or give away products to any Wholesale Customers for all product sold on consignment at any point of time without payment. The Agreement requires the Distillery 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 3.6](#) above.

7.0 Consequence of Non-Compliance

As provided in the Agreement:

“If the inspection or audits referred to above disclose a breach of the Agreement, you must pay the costs and expenses of the inspection or audit and any payments assessed as due and owing, as determined by the LDB using reasonable audit standards.”

This clause states that if the Distillery is found to be non-compliant with the Agreement, it is required to make payments for:

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

In the event a Distillery is found to be in non-compliance with the Agreement (such as, improper record-keeping), LDB will generally provide the Distillery 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 Distillery through this process by providing guidance to bring the Distillery 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 noncompliance with the Agreement to the Liquor and Cannabis Regulation Branch;
- withhold registration of any new product;
- require the Distillery 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 Distillery’s authorization to conduct any direct sales or delivery within BC; or
- terminate the Agreement thereby revoking the Distillery’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 –Commercial Distillery (the “Agreement”)

Available at: http://www.bcldb.com/files/Commercial_Distillery_Sales_Agreement_0.pdf

BC Liquor Distribution Act (the “Act”)

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

For any additional inquires, please contact:

LDB Regulatory Email Inbox regemail@bcldb.com