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Accounting Questions: Distribution of Overhead in Bakery, Valuation of Stock-Exchange Seat

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Accounting Questions

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DISTRIBUTION OF OVERHEAD IN BAKERY

Question: Would you kindly advise me what methods are used in the distribution of overhead expenses in a bakery having the following departments: bread, cake, pastry and doughnut?

The direct labor allocable to each of the above departments is clearly earmarked, but the overhead expenses, such as depreciation on buildings and equipment, taxes, insurance, indirect labor, etc., overlap to a great extent.

The direct labor basis of distribution does not seem equitable for the reason that the pastry and cake departments have more hand work and less machine work than the bread department. The other possible bases would be retail sales value, production tonnage or prime cost (material and labor combined); but none of these bases appears to give a fair distribution.

I would be interested to know what basis is commonly used by the larger bakery companies which produce the above four kinds of bakery products.

Answer No. 1: The distribution of the overhead expenses as between products presents a difficult problem and in the consideration of any method of distribution the arbitrary features of the apportionment of the expenses must be recognized. We have found that certain prominent baking companies do not distribute the overhead expenses as between products; the departmental statement of operations reflects only the direct charges to the departments.

The following is suggested as a method of distribution of these expenses:

Indirect labor—(superintendence, etc.)	On basis of sales value of product
Depreciation, taxes, rent, plant general repairs, etc.	On basis of floor space
Salesmen's salaries	Generally paid on commission basis which may be charged direct. Other payments on basis of sales value
Advertising, etc.	On basis of sales value
Truck expense—(gasoline, repairs, depreciation, etc.)	On basis of tonnage
Administrative expenses	On basis of sales value

VALUATION OF STOCK-EXCHANGE SEAT

Question: In the case of the audit of a stock-exchange member firm, a seat is carried on its books for an amount considerably above the market price (last sale) at the close of its fiscal year.

Should a write-down (direct or reserve) from the cost to market price be made?

Answer No. 1: A stock-exchange seat is somewhat in the nature of a fixed asset which can not be disposed of if the firm is to continue in business, and temporary fluctuations in the market prices of such seats should not necessarily be reflected in the earnings or the capital of the firm. However, as a matter of conservatism some firms do write down the values at which stock-exchange seats are carried to market values, or even below.

As a practical matter, such write-downs have no real effect, at least from the standpoint of financial statements prepared for the stock exchange or for other financial interests, for the reason that in determining the working capital position of a firm, it is the invariable custom to deduct from the firm's total capital the value at which the exchange seats are carried on its books. This is for the reason that such seats have no value as collateral, due to the restrictions upon their sale and the fact that the other members of the exchange, in case of trouble, have a first lien upon the proceeds realized from their sale.

Summing up, therefore, it is not in our opinion essential that the value of such seats be written down to market value, but, in case of any wide variance therefrom, the best practice would seem to require that a footnote to that effect be placed on the balance-sheet or that the market value as of the date of the balance-sheet be inserted parenthetically.

Answer No. 2: It is not customary to write down or write up the cost to last sale value unless there be a dissolution of the firm by reason of either retirement or admission of partners. In other cases, it is regarded as good accounting procedure for the auditor to indicate the current market value of seats through the medium of parenthetic reference on the balance-sheet so that the information might be made available to those receiving copies of the financial statement.

Some contracts of partnership provide for periodic adjustments in such values for the purpose of fixing a more equitable basis upon which to calculate interest allowance to the partner contributing the use of his membership.

The majority of such contracts are silent on the subject of revaluation. In such circumstances, the accountant is without authority to make any adjustments—hence the thought of recording the market value through the bracketed reference on the balance-sheet.