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Accounting Questions: Inventory Pricing in Distilleries

American Institute of Accountants. Bureau of Information

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ACCOUNTING QUESTIONS

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INVENTORY PRICING IN DISTILLERIES

Question

Will it be possible for you to secure some information for me regarding the inventory-pricing practices in the distillery business?

As you undoubtedly know, after the whiskey is made it is placed in bonded warehouses to age. The cost at which the whiskey is placed in the warehouse, of course, is affected by the cost of the grain at the time of its manufacture. To this may be added certain carrying charges during the time it remains in the warehouse.

It has been our practice to maintain inventory records on each season's lot and to relieve the inventory and charge cost of sales on the basis of the cost of the lot sold. It has been suggested in connection with one rather important client that the inventory be averaged and charged out on the basis of an average cost.

I would like, if possible, to find out whether the average cost basis is being used in connection with other large distilleries. Incidentally, I would also like to know what carrying charges are being added to the inventory by other distilleries.

Answer No. 1

In the case of one such company with which we are familiar, production costs are transferred monthly to the accumulated costs of production for that season. Carrying charges,

such as insurance and warehousing (but not interest) are also included in cost of production. As whiskey is withdrawn for bottling or resale, the inventory of maturing whiskey is relieved of an amount representing the proportionate average cost of the season's product withdrawn.

To summarize: (1) costs are accumulated for the production of each season, and (2) the costs of one season are used to determine the average costs for that period—costs of different seasons are not averaged.

Answer No. 2

It is the general practice of the larger distilleries to carry their inventories by seasons and to charge cost of sales on the basis of the cost of each season's production sold. We do not know of any of the large distilleries that use an average over-all cost of the whole inventory.

The practice of adding carrying charges to the inventory cost is not altogether uniform and we know of one large distillery where this practice is not followed. Where carrying charges are added, they usually consist of expenses relating to the storage warehouses, such as depreciation of buildings, maintenance and repairs, property taxes, wages of warehousemen and guards, fire and compensation insurance, heating, proportion of general plant expense, and rental of leased warehouses.