

SECTION VII--FOOD SERVICE ACCOUNTING

ALLOCATION OF COSTS AND EXPENSES

Concept of Full Costing:

Cost allocation is the process of identifying and assigning costs to the "product" for which the costs have been incurred. In the case of school Food Service Fund accounting, the "product" can be viewed as the particular type of meal served (program). Costs are also allocated to school locations so that complete operating reports can be prepared.

The school Food Service Fund accounting system is predicated on the concept of full costing. This means that all costs, whether incurred directly by the school or program or indirectly on behalf of the school or program, should be charged to it.

Purpose of Full Costing:

There are two primary reasons for using the full costing method of accounting. Only by recording all costs chargeable to a fund or program can management properly control the school Food Service Fund's total operating. For example, to make decisions, such as the normal price charged for meals, without full cost data could result in setting to price of meals too low or too high.

The second reason for using full costing is that many indirect costs of a school Food Service Fund, or of particular programs, are reimbursable by other funds and governmental agencies. Therefore, the accounting system must provide sufficient data to ensure the appropriate amount of reimbursement.

Types of Cost Allocations:

There are two kinds of costs: direct and indirect. Direct costs are easily identifiable to the program in which they are incurred. Those costs which are part of cost of sales--labor and raw materials (food)--are always direct costs.

Allocation computations may be needed to assign costs incurred by all of a school district's funds on behalf of the school Food Service Fund. Both direct and indirect costs may be allocated within a program to subprograms or locations. School food service accounting required program accounting for certain food services. The South Dakota Department of Education calculates and "indirect costs" rate that may be used for cost allocation purposes.

Costs may be combined for the National School Lunch Program, including A la Carte, the regular School Breakfast Program and the Special Milk Program. Separate program cost allocations are required for the Severe Need Breakfast Program, the Nutrition Program for the Elderly and any other separate feeding operation.

General Allocation Procedures:

Some costs are easily identifiable with the school location or program for which they are incurred; however, many are not. Some costs are incurred for all school locations and all programs simultaneously (e.g., accounting services). Some costs may be identifiable to a particular location but not readily identifiable to specific programs at that location (e.g., the cost of equipment used to prepare food for all programs at a single school location). Other costs

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may be identifiable to specific program but not to specific locations (e.g., printing and distributing weekly district-wide menus for a particular type of meal).

To provide school district and school Food Service Fund management with sufficient information to manage the total food service operation properly and to prepare claims for the maximum reimbursements to which the fund is entitled, all of the costs mentioned above should be allocated to the various school programs for which they were incurred. The allocation process involves determining a reasonable distribution of costs to the program and cost accounts for which the cost was incurred. Allocation by location may occur if desired.

Recording Allocations to Programs:

When allocating to programs, the allocation takes place while reports are being prepared. The allocation process involves dividing the general ledger account balance among the various locations or programs to complete the reports.

Allocation Checklists:

When preparing reports, a work sheet checklist such as that shown in Illustration 2 will be useful for allocation purposes. Illustration 2 shows the basis for allocation of costs to programs.

Several of the allocation procedures require the use of figures from an operating statement. The most recent operating statement for the year-to-date should be used as the source for such figures. In this way, the effect of monthly fluctuations will be minimized, and a more reasonable allocation of costs will result.