

Instructional Guide for Equipment Depreciation

Child Nutrition Programs



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August 2009

EQUIPMENT DEPRECIATION

Depreciation is a process which spreads the cost of equipment over its estimated useful life rather than expensing the total purchase price in one year. Food service equipment used for food preparation and serving, as well as transportation and computer equipment used exclusively in the food service program, must be reported as a depreciation expense.

Equipment Classification and Life

The cost of food service equipment (for example, ranges, refrigerators, steam tables, carts, and work tables) must be depreciated over a ten-year period from the date acquired. This simply means one-tenth of the acquisition cost is expensed per year.

Vehicles and/or transportation equipment used exclusively in the food service program may be charged as an allowable expense. The rate of depreciation for vehicles or transportation equipment is based on five years.

Computer equipment used exclusively in the food service program may also be charged as an allowable expense. The rate of depreciation for computer equipment is based on three years.

If any equipment is used for purposes other than the food service operation, only the portion of the cost used in the food service program can be depreciated and expensed on the Child Nutrition Programs Annual Financial Report. Documentation must be maintained showing the amount of use to the food service program.

Unallowable Depreciation

While depreciation costs are allowable for food service equipment, vehicles, and computers, depreciation is not allowable for the following items:

- Publicly owned buildings
- Depreciable equipment which has been fully depreciated or has remained in use beyond its original life expectancy
- Depreciable equipment in long-term storage for future use or equipment that was sold, traded, or otherwise disposed of
- Portions of time in which equipment is not used in the food service program

How to Calculate Depreciation

In order to compute depreciation, you need the following information for each class of equipment.

To compute depreciation for the year, multiply the acquisition cost times the depreciation factor. Acquisition cost is the purchase price plus installation and/or freight. The depreciation factor is determined by dividing 1 by the number of years over which the purchase is to be depreciated:

Equipment:	1 divided by 10 years = .10
Computer equipment:	1 divided by 3 years = .333
Vehicles:	1 divided by 5 years = .20

Equipment purchased during the year is depreciated for the entire year regardless of the purchase date.

EXAMPLE: Calculate Depreciation Cost

School District #1 purchased a refrigerator (serial number 00123) on March 21 for \$15,300, and Acme Cooling Company charged \$300 for installation and \$50 for delivery. The refrigerator has an estimated useful life of ten years.

Purchase Price	\$15,300
Installation	300
Freight/Delivery	<u>50</u>
Acquisition Cost	\$15,650

The depreciation cost in the example is calculated as follows:

$$\$15,650 \text{ (Acquisition Cost)} \times .10 \text{ (Depreciation Factor)} = \$1,565$$

Equipment Depreciation Schedule and Worksheet

The suggested Equipment Depreciation Schedule and Worksheet will provide the documentation necessary to support depreciation charges. A separate schedule for each type of equipment purchased (equipment, vehicles, and computers) must be maintained.

To prepare the schedule and worksheet, the following steps should be performed for all food service equipment:

1. List each item, including serial number, tag number, and/or any other identifying information (Column C).
2. List the date placed in service, most likely the date purchased (Column A). Any equipment acquired during the year is depreciated for the entire year regardless of the purchase date.
3. Compute the acquisition price for each item: purchase price plus or minus any adjustments (Column D plus or minus Column E).
4. Total the acquisition cost (column F) on each page of the Equipment Depreciation Schedule.
5. Transfer the total acquisition cost to the Equipment Depreciation Worksheet under the appropriate acquisition cost category.
6. The Equipment Depreciation Worksheet summarizes all depreciation expenses by type (equipment, vehicles, and computers) of equipment purchased. To calculate the depreciation amount by category, multiply the total acquisition cost by type (equipment, vehicles, and computers) times the appropriate depreciation factor (equipment .100, vehicles .200, or computers .333) provided on the worksheet.
7. To calculate the total depreciation to be reported as Equipment Depreciation (line 9) on the Annual Financial Report, total the amounts calculated on the Equipment Depreciation Worksheet under the depreciation amount category.

Once the schedule has been established, the depreciation calculations will be required once per year. If no changes occur on the schedule, the depreciation expense will remain the same from one fiscal year to the next. Only when new equipment is purchased and added to the program, or equipment is disposed of, sold, or fully depreciated, will a change in depreciation expense be necessary.

Traded, Scrapped, or Sold Equipment

Special problems are presented by equipment which is traded in on a new item of equipment, scrapped before the end of its expected life, or sold.

EXAMPLE: When Equipment Is Traded In

When equipment is traded in on another item of equipment, the amount that has not been fully depreciated, book value, must be recognized as part of the acquisition cost of the new equipment. This is illustrated in the following example:

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002 the freezer was traded in on a larger model. The book value of the old freezer equaled \$2,100. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation	<u>900</u> (.10 X \$3,000 X 3 years)
Book Value	\$2,100

The new freezer cost School District #1 \$3,750 after trade-in plus the book value of the old freezer, \$2,100. Therefore, the acquisition cost of the new freezer would be \$5,850. Calculated as follows:

Purchase Price After Trade-in	\$3,750
Book Value of Trade-in	<u>2,100</u>
Acquisition Cost	\$5,850

The new freezer was added to the equipment depreciation schedule, and the old freezer was deleted. Because of the higher acquisition cost of the new freezer, the depreciation expense was higher for the next year. No other changes occurred because of this transaction.

EXAMPLE: Scrapped Equipment

When equipment is scrapped, the book value would be recognized as an expense for the fiscal year. The book value is to be recorded as a loss on disposal or sale of equipment and is to be reported as Other Costs on the Annual Financial Report. This is illustrated in the following example:

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002, the freezer was scrapped. The book value of the old freezer equaled \$2,100. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation 3/1/1999 through 2/28/2002	<u>900</u> (.10 x \$3,000 x 3 yrs)
Loss on Disposal or Sale of Equipment	\$2,100

The loss on disposal or sale of equipment would be reported as Other Costs for the fiscal year in which the equipment was scrapped. It would also be removed from the equipment depreciation schedule and the depreciation expense would be lower for the next Annual Financial Report, assuming no additional equipment was purchased.

Gain/Loss on Sale of Equipment

When equipment is sold, the difference between the sale price and the book value would be recognized as *revenue* if there was a gain and as *expense* if there was a loss for the fiscal year. If there was a gain, the amount would be recorded as a gain on the sale of equipment and reported as Other Revenue. If there was a loss, the amount would be recorded as a loss on the disposal or sale of equipment and reported as Other Costs on the Annual Financial Report. This is illustrated in the following examples:

EXAMPLE: Gain on Sale of Equipment

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002 the freezer was sold. The book value of the old freezer equaled \$2,100. School District #1 sold the freezer to School District #2 for \$2,500. The gain on the sale of equipment would be \$400. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation 3/01/1999 thru 2/28/2002	<u>900</u> (.10 X \$3,000 X 3 years)
Book Value	\$2,100
Sale of Equipment	<u>2,500</u>
Gain on Sale of Equipment	\$ 400

The gain on sale of equipment would be reported as Other Revenue for the fiscal year in which the equipment was sold. It would also be removed from the equipment depreciation schedule and the depreciation expense would be lower for the next Annual Financial Report, assuming no additional equipment was purchased.

EXAMPLE: Loss on Disposal or Sale of Equipment

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002, the freezer was sold. The book value of the old freezer equaled \$2,100. School District #1 sold the freezer to School District #2 for \$1,500. The loss on the sale of equipment would be \$600. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation 3/1/1999 thru 2/28/2002	<u>900</u> (.10 X \$3,000 X 3 years)
Book Value	\$2,100
Sale of Equipment	<u>1,500</u>
Loss on Disposal or Sale of Equipment	\$ 600

The loss on sale of equipment would be reported as Other Costs for the fiscal year in which the equipment was sold. It would also be removed from the equipment depreciation schedule.

EQUIPMENT DEPRECIATION SCHEDULE INSTRUCTIONS

List all food service equipment under ten years old, vehicles used in the food service program under five years old, and computer equipment used in the food service program under three years old. Separate schedules should be maintained for equipment, vehicles, and computer equipment.

Column A—Actual purchase date (invoice date)

Column B—Date equipment will be fully depreciated and removed from schedule (ten or five or three years from date in column A)

Column C—Identifying numbers and names

Column D—Full cost of equipment (invoice total)

Column E—Additions to purchase price for costs of installation and/or freight and deductions from purchase price for portions of equipment not utilized 100 percent in food service operations

Column F—Column D plus or minus column E

Column G—Total depreciation expense to date

Column H—Column F minus column G (When this column equals zero, equipment is fully depreciated and should be removed from schedule. This should correspond with the exit date.)

EQUIPMENT DEPRECIATION WORKSHEET

SAMPLE FORMAT—Distributed by Illinois State Board of Education (ISBE) for school food authority discretionary use only. Format may be modified or copied. Do not return to ISBE.

EQUIPMENT DEPRECIATION WORKSHEET

INSTRUCTIONS: Use this form to summarize data collected on ISBE Form 50-57, Equipment Depreciation Schedule.

NAME OF SCHOOL FOOD SPONSOR _____

AGREEMENT NUMBER _____

ACCOUNTABLE EQUIPMENT SCHEDULE VALUE BY PAGE

TYPE	TOTAL ACQUISITION COST	DEPRECIATION FACTOR	DEPRECIATION AMOUNT
Equipment	_____	X .100	= _____
Vehicles	_____	X .200	= _____
Computers	_____	X .333	= _____

TOTAL DEPRECIATION _____
 (To be recorded on Line 9 of the annual financial report)
 TOTAL DEPRECIATION IS THE SUM OF THE THREE LINES ABOVE

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