Utah State University

Service Accounts

A service department provides a specific type of service to university departments rather than to individual students and is supported by internal charges to the using department's operating budget. Examples of service departments are Information Technology, Motor Pool, Publication, Design, and Production (PDP), and Distribution.

The fund type for service accounts is 17 in Banner.

These accounts do not operate from a budget balance available, but are dependent upon revenues generated. In calculating over budget amounts for the monthly reports, the encumbrances for salaries and benefits are excluded to more accurately match the flow of revenues with the expenditures incurred.

The rates charged by a service department should reflect operating costs, which may include salaries, wages, employee benefits, costs of material and supplies, operation and maintenance of the physical facilities occupied, provision for replacement and depreciation of equipment, and provision for debt service. Each service department should develop and have on file a detailed support of its charge rates, showing how rates were determined in relation to costs of the operation. This supporting documentation should be reviewed and updated at least annually. If the accounts are in a deficit position, the department should review and alter the rate structure accordingly.

Over the long run, a service department should operate on a break-even basis. A break-even basis means the amount of revenue generated should be equivalent to the expenditures over a specified time period. Consistent and equal rates should be charged to all on-campus users. There should be no charges made in advance of services rendered.

Federal guidelines restrict the amount of working capital that a service department can have on hand at the end of each fiscal year. Working capital is defined as cash (account code 101100) + accounts receivable - accounts payable. According to federal guidelines, a service department can have a maximum of 60 days of working capital on hand. Sixty days of working capital is calculated by taking the total operating expenses for a fiscal year (to include cost of goods sold, labor, travel and other expenses) less depreciation expense divided by 365, multiplied by 60.

Service departments are subject to depreciation of the capital assets which are purchased to run the service. The assets are moved from an expense on the statement of income and expense to an asset on the balance sheet and depreciated over the service life of the asset. An amount equal to the current month's depreciation expense (780100) is moved to account code 102100, "Cash-Funded Depreciation" each month to accumulate funds for equipment replacement.

Depreciation of Equipment

<u>Definitions:</u>

Depreciation: The accounting process of allocating the total purchase price of an asset over the service life of the asset. This is done to match the yearly or monthly cost of using that asset against the revenue generated by the asset.

Service Life: The time period that a given asset can be expected to efficiently generate revenue. Two factors impact the service life of an asset, (1) wear and tear due to operational use and (2) functional causes through obsolescence, inadequacy or both. Utah State University uses industry standards which establish the service life for various pieces of equipment. The service life becomes the time period over which the total purchase price of the asset will be depreciated.

Allowance for Depreciation: The allowance for depreciation balance reflects that portion of the total purchase price of equipment that has been allocated as operating costs to date. This allowance offsets the total value of equipment to provide a statement of the net value of the equipment at a given reporting date.

Funded Depreciation: A cash reserve (account control 102100) set aside for replacement of capital assets. This cash balance is not included in working capital calculations. Each service department should develop a five year capital equipment replacement plan which should be updated annually. Your accountant will analyze the replacement plan to determine if you will have sufficient funded depreciation for the purchases. If there are sufficient funds, when a capital purchase is made *the department notifies their accountant* of the purchase and requests the funds to be transferred to cover the purchase. After the accountant verifies the purchase, the funds will be moved. **No funds will be moved until your accountant has an updated copy of your capital replacement plan.**

<u>Benefits of recording depreciation:</u>

The use of depreciation allows a service enterprise to allocate the total purchase price of equipment over the service life of the equipment. By doing this, the cost of equipment purchases is spread over the life of the piece of equipment and matched against the revenues generated by the equipment in a given accounting period. Rates for providing services can remain more constant since the need to recover the total purchase price of an equipment purchase in the year it is purchased is no longer required.

The allowance for depreciation (197300), offset against the total value of equipment, gives the service enterprise manager a more accurate view of what the basis is for a given asset. In addition, and perhaps more important, the total allowance for depreciation provides the service enterprise manager a measure of the amount of cash that should be reserved for equipment replacement at the end of any given accounting period.

Through the funded depreciation process, funds are set aside each month to provide for future equipment acquisitions. Acquisitions are planned five years in advance through the use of the capital equipment replacement plan.

For further information about funding depreciation, please contact Brandi Gittins in the Controller's Office at extension 7-0589. To establish or update your capital equipment replacement plan, please contact the accountant assigned to your service account(s).