

**Related Topics
Year End Report Worksheet for School Lunch,
Breakfast, Afterschool Snack**

**Residential Child Care Institutions
SM-4012-R**

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Use of the Year End Report

Michigan Department of Education

The Michigan Department of Education (MDE) has several uses for the data collected on the Year End Report. Most apply to programs operated by public schools.

MDE consultants will use your report as a preliminary tool when providing technical assistance. MDE also publishes a compilation of all the Year End Report data each year so that general comparisons can be made between Residential Child Care Institutions.

Residential Child Care Institutions

The report can be used by an RCCI to track the progress of the food service program throughout the year. The form could be adapted for use on a weekly, monthly, or quarterly basis.

RCCIs should look at indicators like Food Cost % and Labor Cost % to compare periods with different number of meals served.

Accrual Accounting

Accrual accounting is a method of applying cost and revenue to the proper period. The method is used so a simple profit and loss calculation can be done accurately. In the case of revenue, schools operate primarily on a cash basis, so the revenue as collected usually falls into the proper year. The exception to this is districts that have significant advance sales such as debit card systems. Costs too are generally applied in the period in which they are paid with the exception of large inventory items like food. Use of accrual methods will give a more accurate "snapshot" of a particular year. Actual revenue earned in a year can be compared to the cost of earning that revenue.

Total Cost Allocation

Indirect Rate – Line 7

Indirect costs are costs that cannot be tied to a specific area of operation. The heating of the buildings, plowing of the parking lot, and custodial care of general traffic areas are of benefit to each operation in the building.

The indirect cost rate is an attempt to give RCCIs a method to assign costs to each area fairly. Any cost represented in the indirect cost rate must **not** be shown in lines 1, 2, or 3. Custodial costs included in the calculation of the indirect rate could therefore **not** be shown in column A as salaries. The maximum rate that can be

used is 12%.

Developing a Depreciation Schedule – Line 8

Depreciation divides the cost of capital goods greater than \$5,000 in value into the number of years of its life. Food service equipment is depreciated over twelve years. Divide cost, including delivery and installation, by 12 to find the amount to “charge” each year. Heavy vehicles use six years (divide by 6), light vehicles use four years (divide by 4) and electronics, like computers, use 5 years (divide by 5).

Enter each depreciation amount on the schedule, total them and use this amount on each Year End Report until something is added or taken from the schedule. When the amount changes use it until another change is made.

Depreciation Schedule Example

Equipment/Vehicle or Electronics	Cost	Date of Purchase	Depreciation Value	Date of Expiration
Delivery Van	\$11500	11/8/03	\$2,875.00	11/8/07
Convection Oven	\$7000	8/16/03	\$583.33	8/16/15
Total (use each year)			\$3,458.33	

Food Cost and Inventory – Line 9

See the example below in which an accrual accounting procedure (inventory adjustment) is contrasted with non-accrual in calculating food cost.

Food Purchases	\$20,500
Beginning Food Inv.	\$ 900
Ending Food Inv.	\$13,300

Accrual Method	
Food Cost:	
Beginning Inv.	\$ 900
+ Purchases	\$20,500
- Ending Inv.	\$13,300
Food Cost	\$ 7,100

Non-Accrual Method
Food Purchases shown as Food Cost:
\$20,500

Using food purchases (non-accrual method) will greatly overstate food cost in years

in which inventory is growing. Conversely, in the years in which inventory is being used there will be fewer purchases and food cost will appear low. Typically, RCCIs that make this error have high food costs in one year followed by low food costs the next year.

Inventory

Inventory should be taken of all food items at least monthly. The food inventory should be used to order food and to monitor inventory turnover. Only the ending inventory needs to be **priced** (extended) each year and used in the cost of goods calculation as demonstrated above. A shortened version of an inventory form follows. It is easily converted to an electronic spreadsheet.

Inventory Form Example

Check if Commodity	Food	Pack	Purchase Price/Case	Number of Cases	Number of Individual Units	Cost
					Total Cost	

To calculate the value, multiply the case price by the number of cases. When quantities are part of the case, proportional pricing should be done.

Example:

Price per case of Peaches (6 #10 cans) \$26.45

Count: 5 cases 4 cans

$$\$26.45 \times 5 = \$132.25 \text{ plus } \$26.45 \times 4/6 = \$17.63 \Rightarrow \Rightarrow \mathbf{\$149.88}$$

For purchased food use the most current price. For commodities use the "cost of delivery and processing" as charged by the distribution warehouse.

Each Summer the auditors will request your inventory. The only difference from your closing inventory (June 30) is that the commodity portion will be valued at the market value as published in *Food Scoop* from MDE. However, the market value must **never** be used when calculating food cost for the Year End Report.

The calculation method used for determining food cost may be used for **Supplies and Other Material** costs. This will provide more accurate Year End Report data.

Allocation of Costs

After all the cost data is entered in the **Total Cost** section of the Year End Report,

record the total cost for each operational centers in the food service; School Lunch, School Breakfast, Non-reimbursable Dinner and Afterschool Snack Program.

To obtain the cost per meal, a method must be used to assign cost into the operational centers. The Salary and Benefits (Lines 1 & 2) should be allocated based upon a labor study (see **Labor Study Example**). The Food Cost (Line 9) should be allocated based on the proportion of purchases used in each operational center (See **Food Cost Study Example**). The remaining lines should be allocated based on an average of labor and food cost (See **The Remaining Cost**). Study the examples that follow.

Labor Study Example

Distribute notebooks or forms to the employees on which they will record the amounts of time they spend in each operational area for at least a week. Add all of the hours for each operational area and divide each by the total hours. The resulting percentages are applied against the total costs for Line 1 and Line 2.

The following is an example of a form an employee may use to record their time working in food service.

Marie Jones

Day	School Lunch Program	School Breakfast Program	Non Reimbursable Dinner	Afterschool Snack Program	Total
Monday	2.0 hr.	1.0 hr.	1.5 hr.	.5 hr.	5.0 hr.
Tuesday	2.0 hr.	1.0 hr.	1.5 hr.	.5 hr.	5.0 hr.
Wednesday	2.0 hr.	1.0 hr.	1.5 hr.	.5 hr.	5.0 hr.
Thursday	2.0 hr.	1.0 hr.	1.5 hr.	.5 hr.	5.0 hr.
Friday	2.0 hr.	1.0 hr.	1.5 hr.	.5 hr.	5.0 hr.
Total	10.0 hr.	5.0 hr.	7.5 hr.	2.5 hr.	25.0 hr.

Individual staff times can be compiled into a chart like the one below.

Labor Compilation Example

Building	School Lunch Program	School Breakfast Program	Non Reimbursable Dinner	Afterschool Snack Program	Total
M. Jones	10.0 hr.	5.0 hr.	7.5 hr.	2.5 hr.	25.0 hr.
C. Smith	5.0 hr.	4.0 hr.	4.0 hr.	3.0 hr.	16.0 hr.
Total	15.0 hr.	9.0 hr.	11.5 hr.	5.5 hr.	41.0 hr.

After the Labor Compilation is completed, calculate the **Labor Cost Percentage**.

Use the following formula:

$$\text{Operational Center Hours} \div \text{Total Labor Hours} = \text{Labor Cost \%}$$

Labor Cost Percentage Example

Hr ÷ Total Hr = %	15.0 ÷ 41 = .366	9.0 ÷ 41 = .220	11.5 ÷ 41 = .280	5.5 ÷ 41 = .134
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Care should be used when calculating labor percentages. If the week recorded was not typical, some judgment should be made to adjust actual hours to something more realistic. The labor cost percentages will be applied to total salary (See **Applying the Results of Labor and Food Cost Studies**).

Food Cost Study Example

Review food invoices for a representative period. The period should reflect all typical deliveries. Commodity invoices should also be used with the price of the items based upon the cost of processing and/or delivery. Highlight or use other ways of identifying food items used only in certain areas (i.e. Lunch, A la Carte). Decide on a reasonable proportion of the cost of items that are used in more than one area and pencil in that cost as shown in the example below:

Example: Flour Purchases: \$54.50
Estimated use rate: Lunch 60% Breakfast 10% Dinner 30%

The assignment of cost:
Lunch: \$32.70 Breakfast: \$5.45 Dinner: \$16.35

Food purchases by operational center would be compiled into a chart like the one below.

Food Cost Compilation Example

	School Lunch Program	School Breakfast Program	Non Reimbursable Dinner	Afterschool Snack Program	Total
Purchases	\$14,320	\$2,119	\$13,022	\$940	\$30,401

After the Food Cost Compilation is completed, calculate the **Food Cost Percentage**. Use the following formula:

$$\text{Operational Center Food Purchases} \div \text{Total Food Purchases} = \text{Food Cost \%}$$

Food Cost Percentage Example

\$ ÷ Total \$ = %	14320 ÷ 30401 = .471	2119 ÷ 30401 = .070	13022 ÷ 30401 = .428	940 ÷ 30401 = .031
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Applying the Results of Labor and Food Cost Studies

Make a copy of a blank Year End Report. In each Cell for Salaries and Benefits, write the corresponding labor cost percentages. In each Cell for Food Cost, write the corresponding food cost percentages.

	Total Cost A	School Lunch Program B	School Breakfast Program C	Non Reimbursable Dinner D	Afterschool Snack Program E
1. Salaries		.366	.220	.280	.134
2. Benefits		.366	.220	.280	.134
3. Contract					
4. Transp.					
5. Supplies					
6. Subtotal					
7. Indirect					
8. Deprec.					
9. Food Cost		.471	.070	.428	.031
10. Total					

For determining the cost % for Lines 3-5 and Line 8 of columns B-E, use this formula:

Line (1 + 9) ÷ 2 = % for Lines 3-5 and Line 8.

Example of Determining Lines 3-5 and Line 8 Cost Percentages

$.366 + .471$ ÷2	$.220 + .070$ ÷2	$.280 + .428$ ÷2	$.134 + .031$ ÷2
.419	.145	.354	.082

Remaining Cost

Enter the percentages into the applicable cells.

	Total Cost A	School Lunch Program B	School Breakfast Program C	Non Reimbursable Dinner D	Afterschool Snack Program E
1. Salaries		.366	.220	.280	.134
2. Benefits		.366	.220	.280	.134
3. Contract		.419	.145	.354	.082
4. Transp.		.419	.145	.354	.082
5. Supplies		.419	.145	.354	.082
6. Subtotal					
7. Indirect					
8. Deprec.		.419	.145	.354	.082
9. Food Cost		.471	.070	.428	.031
10. Total					

Multiply Total Costs in Column A by the percentages in each cell to determine the cost allocations.