

Case 25-3c

Food Truck Rental

Food2GoToday Inc. (Food2GoToday or the “Company”), a public business entity, is a wholesale food and beverage distribution company with local and regional clients that benefit from the Company’s transportation of food and beverage products. The Company owns a fleet of trucks that it uses to transport the food and beverage products. The Company occasionally enters into arrangements to secure additional trucks from third parties when its fleet of trucks is not sufficient to fulfill its own requirements.

WeHaveFoodTrucks Inc. (WeHaveFoodTrucks) is a trucking company that supports wholesale food and beverage distribution companies. WeHaveFoodTrucks owns a fleet of trucks that transport nonperishable products and also owns one truck with refrigeration capabilities, which is used for transporting perishable products. (WeHaveFoodTrucks cannot source additional trucks with refrigeration capabilities within a reasonable period.) The truck with refrigeration capabilities is not customized or unique; thus, it can be used by any WeHaveFoodTrucks customer and WeHaveFoodTrucks does not incur significant costs..

Food2GoToday enters into a three-year contract with WeHaveFoodTrucks for a truck that Food2GoToday will use to deliver its perishable food and beverage products that require refrigeration; the contract commences on January 1, 20X2. The contract does not identify the type of vehicle or a specific truck to be used. Further, WeHaveFoodTrucks is permitted to substitute the truck during the contract term.

A designated Food2GoToday driver will operate the truck to transport the Company’s products to its customers in accordance with its delivery schedule. Therefore, Food2GoToday will determine which products are delivered and when and where the products are transported during the contract period. In accordance with the contract, the truck provided will be for the exclusive use of Food2GoToday (i.e., it will not be available for use by other companies). Certain restrictions prohibit the Company’s drivers from operating the truck beyond the maximum hours permitted by law or from carrying illegal or hazardous materials as cargo.

The contract stipulates annual payments from Food2GoToday to WeHaveFoodTrucks for the greater of (1) \$1 for every mile driven during the annual period and (2) \$4,000 for each year. The annual payments are to be paid at the end of each year. There is no option to renew the contract at the end of the initial three-year period. In addition, Food2GoToday has an option to purchase the truck with refrigeration capabilities at the end of the contract period at then fair value of the truck. At the commencement of the contract, the truck is assumed to have a remaining useful life of seven years and a fair value of \$65,000.

Food2GoToday incurs \$4,000 in initial direct costs by paying commissions to third-party brokers in connection with securing the contract. As an incentive to enter into the contract, WeHaveFoodTrucks offers to reimburse \$1,000 of these fees.

Assume the following:

- Food2GoToday cannot readily determine the rate implicit in the contract.
- Food2GoToday's incremental borrowing rate is 6.5 percent.
- Neither Food2GoToday, as a potential lessee, nor any other third party provides any residual value guarantee to WeHaveFoodTrucks.