MobileAsset v7 and AssetCloud Depreciation Methods Definitions

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AssetCloud (all editions) can use Straight Line, Double Declining Balance, 150% Declining Balance, Declining Balance Custom and Sum of the Years' Digits.

MobileAsset Standard edition can use the Straight Line depreciation method only.

MobileAsset Professional edition can use Straight Line, Double Declining Balance, 150% Declining Balance, Declining Balance Custom and Sum of the Years' Digits.

Definitions for each of these methods are provided below. All the depreciation methods are specified by United States GAAP Codification of Accounting Standards.

Straight Line - The simplest and most commonly used depreciation method, straight line depreciation is calculated by taking the purchase or acquisition price of an asset subtracted by the salvage value divided by the total productive years (Life) the asset can be reasonably expected to benefit the company.

Example:
purchase price of asset – approximate salvage value
---------- (divided by) ----------
estimated useful life of asset

Assume you buy a new computer for your business costing approximately $5,000. You expect a salvage value of $200 selling parts when you dispose of it. Accounting rules allow a maximum useful life of five years for computers; in the past, your business has upgraded its hardware every three years, so you think this is a more realistic estimate of useful life, since you are apt to dispose of the computer at that time. Using that information, you would plug it into the formula:

$5,000 purchase price - $200 approximate salvage value
---------- (divided by) ----------
3 years estimated useful life

The answer, $1,600, is the depreciation charges your business would take annually if you were using the straight line method.

Double Declining Balance - The double declining balance depreciation method is similar to the straight-line method. To use it, the system first calculates depreciation as if it were the straight line method. Then it determines the total percentage of the asset that is depreciated the first year and doubles it. Each subsequent year, that same percentage is multiplied by the remaining balance to be depreciated. At some point, the value will be lower than the straight-line charge, at which point, the double declining method should be scrapped and straight line used for the remainder of the asset's life. Remember that the IRS does allow businesses to switch depreciation methods one time in the life of an asset. MobileAsset will not make this switch for you. It is up to the individual business to keep track of when the switch to straight line depreciation should be made.

In MobileAsset, you must enter at least 100% for the custom declining balance.

Example:

In our straight-line example, we calculated that a $5,000 computer with a $200 salvage value and an estimated useful life of three years would be depreciated by $1,600 annually. The first year, we have to compare this to the total amount to be depreciated, in this case, $4,800 [$5,000 base - $200 salvage value = $4,800]. Dividing $1,600 by $4,800, we discover the straight-line depreciation charge [$1,600] is 33.33% of the total depreciation amount [$4,800]. Using this information, we double the 33.33% figure to 66.67%.

In the first year, we would take $4,800 multiplied by .6667 to get a total depreciation charge of approximately $3,200. In the second year, we would take the same percentage [66.67%] and multiply it by the remaining amount to be depreciated. Continuing with the example, we find that $1,600 is the remaining amount to be depreciated at the start of the second year [$4,800 - $3,200 = $1,600]. Multiply 1,600 by .6667 to get $1,066. This is the depreciation charge for the second year – or not! Remember that once the depreciation charges dip below the amount that would be charged using the straight-line method, the double declining balance should be scrapped and straight line immediately utilized. The straight line method called for charges of $1,600 per year. Obviously, the $1,066 charge is smaller than the $1,600 that would have occurred under straight line. Thus, the deprecation charge for the second year would be $1,600.

The equation below illustrates this method:

depreciable base * (2 * 100% / useful life in years)

150% Declining Balance - This method uses 150% of the straight-line percentage for the first year. The same percentage is then applied to the remaining balance, each succeeding year.

Declining Balance Custom - This method allows you to enter a custom declining balance percentage. Declining Balance is a common depreciation-calculation system that involves applying the depreciation rate against the non-depreciated balance. Instead of spreading the cost of the asset evenly over its life, this system expenses the asset at a constant rate, which results in declining depreciation charges each successive period.

Example:

If an asset that costs $1,000 is depreciated at 25% each year, the deduction is $250.00 in the first year and $187.50 in the second year, and so forth.
Sum of the Years' Digits - To calculate depreciation charges using the sum of the years' digits method, take the expected life of an asset (in years) count back to one and add the figures together.

Example:

10 years useful life = 10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1 Sum of the years = 55

In the first year, the asset would be depreciated 10/55 in value [the fraction 10/55 is equal to 18.18%] the first year, 9/55 [16.36%] the second year, 8/55 [14.54%] the third year, and so on. Going back to our example from the straight-line method: a $5,000 computer with a $200 salvage value and 3 years useful life would be calculated as follows:

3 years useful life = 3 + 2 + 1 Sum of the years = 6

Taking $5,000 - $200 we have a depreciable base of $4,800. In the first year, the computer would be depreciated by 3/6ths [50%], the second year, by 2/6 [33.33%] and the third and final year by the remaining 1/6 [16.67%]. This would have translated into depreciation charges of $2,400 the first year, $1,599.84 the second year, and $800.16 the third year. The straight-line example would have simply charged $1,600 each year, distributed evenly over the three years of useful life.

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- MobileAsset: Why do I have to enter more than 100% for the Custom Depreciation?