

# MYOB Advanced

## Fixed Asset Depreciation Changes

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# Summary

MYOB has added functionality to the Fixed Asset suite by completing work on the Diminishing Value and Prime Cost/Straight-line depreciation methods for the Australian and New Zealand jurisdictions. The following additions have been made:

- Australia
  - New Calculation Methods have been added for Australia Diminishing Value and Australia Prime Cost
- New Zealand
  - New Calculation Methods have been added for:
    - New Zealand Diminishing Value
    - New Zealand Straight-Line
    - New Zealand Straight-Line Evenly by Periods
    - New Zealand Diminishing Value Evenly by Periods
  - The ability to define the percentage calculation of depreciation are available at the following levels:
    - Per Depreciation method
    - Per Fixed Asset Class
    - Per Fixed Asset (individually)

## Details

### Australia

With the new Depreciation Methods, the following attributes happen behind the scenes, which are improvements on the old behaviour:

- Depreciation amounts are calculated on a per-day basis, which means that the calculation for a 31-day month is slightly more than for a month with 30 or fewer days.
- Leap years are taken into consideration. A leap year calculation is slightly higher than a non-leap year
- The calculation for depreciation per asset can be done by changing the Depreciation percentage value

# New Zealand

With the new Depreciation Methods, the following attributes happen behind the scenes which are improvements on the old behaviour:

- Depreciation amounts are calculated on a per-day basis. This means that the calculation for a 31-day month is slightly more than for a month with 30 or fewer days.
  - The calculation can be set to be uniform on a per-month basis by selecting either of the 'Evenly by Period' calculation methods. These have been added in with the absence of the 'Yearly Accountancy' checkbox not being available
  - Depending on whether NZ Straight-line is used, or NZ Straight-line Evenly by Periods is used, the end-of-year calculation is exactly the same, the only difference is how each month is represented as part of the year. This is the same behaviour for Diminishing Value too.
- Leap years are not calculated any differently than a non-leap year, as according to the New Zealand legislation
- The calculation for depreciation per asset can be done by changing the depreciation percentage value

# Old Behaviour

The Fixed Assets module in Advanced Business was only partially compliant. Specific examples include:

- The Straight-Line method gave mostly correct information when used, but the calculation was purely based on the estimated life in years of the asset, rather than being able to define a percentage value.
- The Diminishing Value method was only feasible by using the 'Dutch Method 2' calculation method, and this was not 100% reliable or supported. This method provided the ability to define a percentage value, however the calculation could change based on the DB Multiplier applied.

# New Behaviour

The overall intent is to make the Fixed Assets module fully compliant. To do this, we have focused primarily on ensuring that the fundamentals of Asset Management are compliant first of all, being the depreciation calculation. With this in mind, the following has been added:

- Support for the Straight-Line/Prime Cost and Diminishing Value depreciation methods
  - This is added in the form of six new Calculation Methods to be selected on the Depreciation Methods screen (FA205000):
    - Australian Prime Cost
    - Australian Diminishing Value
    - New Zealand Straight-Line
    - New Zealand Diminishing Value
    - New Zealand Diminishing Value Evenly by Periods
    - New Zealand Straight-Line Evenly by Periods
  - The Calculation Method includes the logic for 'Yearly Accountancy' so the tick for this on Depreciation Methods is disabled when one of the above Calculation Methods is selected
    - The logic for Yearly Accountancy is added to the Calculation Methods which have 'Evenly by Periods' in the title
  - The Averaging Convention field is read-only. The logic has been built in for the Australian and New Zealand calculations methods
    - For New Zealand calculation methods, the initial cost of the asset will always calculate based on the **whole month** in which it was purchased - i.e. if an asset was purchased on 20 July, it is considered to be in ownership for 31/31 days of the month, so the full month will be depreciated. NZ legislation offers the ability to choose between depreciating the whole month, or the partial month, but it's rare that the latter option is taken.
    - For Australian calculation methods, the initial cost of the asset will always calculate based on the **day in the month** in which it was purchased - i.e. if an asset was purchased on 20 July, it is considered to be in ownership for 12/31 days of the month, so the first month will be 12/31 of the value, instead of 31/31 for a full month
  - The Straight-Line/Prime Cost depreciation amount calculated is based on the 'Percent per Year' value entered.
    - The default percentage can be set when entered on the Depreciation Methods screen
    - The Depreciation Method can then be used on a Fixed Asset class, with the percentage value defaulting from the Depreciation Method. This Percentage value can be changed and become the new default when using this Fixed Asset class
    - The Fixed Asset class can then be used on a Fixed Asset, with the percentage value defaulting based on what the Fixed Asset class has set. This value can change on an asset-by-asset basis, or a book-by-book basis for each asset.
  - For New Zealand calculation methods, in the final year of an asset before it is disposed, the depreciation calculated in the final year is reversed
    - The reversal of depreciation is done as part of the disposal journal

## Newly Created Assets versus Existing Assets

The behaviour described above works as expected if you're creating a new asset and assigning a depreciation method which uses one of the new calculation methods. If an asset already exists within Advanced Business prior to the upgrade which contains this change and has been depreciated in at least one period, it is using a depreciation method with a different calculation method at the very least.

At this stage with Advanced Business, when you switch depreciation methods on an asset which has already undergone depreciation, and the new depreciation method has a different calculation method, the system will calculate what the accumulated depreciation should be with the new calculation method, compare the value with the current amount of accumulated depreciation, and make an adjustment in the next period using the new calculation method. The Accumulated Depreciation will then be adjusted to what it would be if the new calculation method was being used since the asset started depreciating.

The value of this difference will be small if you're switching from a method which is quite similar to the new method being added, such as Straight-line to New Zealand Straight Line, but can be a lot higher if you're changing to a different method altogether, such as Straight-line to New Zealand Diminishing Value.

If you encounter the scenario above in the transition process, the following possible workarounds are available:

- **Make no alterations after the change** – If you're going from Straight-line to Straight-line, it's likely that the amount will be very similar to what the value already is, so it can be acknowledged without further action.
- **Leave the existing methods** – The current work each site has had done to configure their depreciation would likely work so if the current method continues to depreciate as it had done previously, there won't be any surprises.
- **Dispose and re-enter the assets in migration mode** – This would be the best solution if you need to change in an extreme way, such as from Straight-line to Diminishing Value. This would require that all assets affected would need to be disposed of in migration mode, then re-created with the current book value as a new asset. The calculation would then begin using the book value entered.

Our intention is to change the logic in an upcoming release where an asset does not recalculate depreciation on changing depreciation methods.

# Example

I currently have an asset worth \$10,000 set up to use the existing Straight-line method. The asset should be set up to depreciate normally at 13.5%. Using the current Advanced Business depreciation method, this must be converted to years, which is 7.407 years (useful life). As a result, the values (unadjusted) look like the below:

| Year | Book value (start) | Depreciation for year | Book value (end) |
|------|--------------------|-----------------------|------------------|
| 1    | 10000              | 1,348.28              | 8651.72          |
| 2    | 8651.72            | 1,348.32              | 7303.40          |
| 3    | 7303.40            | 1,348.32              | 5955.08          |
| 4    | 5955.08            | 1,348.32              | 4606.76          |

When comparing this with how the new depreciation method calculates:

| Year | Book value (start) | Depreciation for year | Book value (end) |
|------|--------------------|-----------------------|------------------|
| 1    | 10000              | 1350.00               | 8650             |
| 2    | 8650               | 1350.00               | 7300             |
| 3    | 7300               | 1350.00               | 5950             |
| 4    | 5950               | 1350.00               | 4600             |

There is a difference of \$6.76 between the two methods.

If I were to switch between the current Straight-line method to NZ Straight-line Evenly by Periods at the end of year 4, the \$6.76 would be taken off the first period calculated in period 5:

| Year | Book value (start) | Depreciation for year      | Book value (end) |
|------|--------------------|----------------------------|------------------|
| 1    | 10000              | 1,348.28                   | 8651.72          |
| 2    | 8651.72            | 1,348.32                   | 7303.40          |
| 3    | 7303.40            | 1,348.32                   | 5955.08          |
| 4    | 5955.08            | 1,348.32                   | 4606.76          |
| 5    | 4606.76            | (1350.00 + 6.76 = 1356.76) | 3250             |

This particular issue has not been changed yet as in most cases, the value involved would be quite small, and is moving to what should be the correct value. While this example is a small value, the impact can be quite different if changing from an actual depreciation method to another (i.e. Straight-line to Diminishing Value).

The intent in the future is to change the calculation so if moving from Method A to Method B, the current book value is used as the starting balance for Method B.