



ATTACHMENT X

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA

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**GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.08**

**ACCOUNTING FOR
CONSTRUCTION IN PROGRESS**



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1 **GOVERNMENT ACCOUNTING STANDARDS**
2 **STATEMENT NO.08**
3 **ACCOUNTING FOR CONSTRUCTION IN PROGRESS**

4 *The standards, which have been set in bold italic type, should be read in*
5 *the context of the commentary paragraphs in this Standard, which are in*
6 *plain type, and in the context of the Conceptual Framework of the*
7 *Government Accounting.*

8 **PREFACE**

9 **OBJECTIVE**

10 1. The objective of this Standard is to prescribe the accounting
11 treatment of construction in progress by applying historical cost method. The
12 main issue of the accounting for construction in progress is the acquisition
13 cost of assets, which should be recorded up to the completion of the
14 construction.

15 2. This Standard provides guidance to:

- 16 (a) Identify the work that can be classified as Construction in Progress;
17 (b) Specify the amount of costs to be capitalized and be presented in the
18 Statement of Financial Position;
19 (c) Specify the basis of recognition and disclosure of the construction costs.

20 **SCOPE**

21 3. ***An accounting entity, which acquires fixed asset through***
22 ***construction for government operations and/or public activities in a***
23 ***certain period, either it is completed by self-construction or by third***
24 ***party, should implement this Standard.***

25 4. Overall, the characteristics of the construction activities are long-
26 term; therefore, the starting date and the completion date of the activity is
27 usually due at different accounting period.

28 **DEFINITIONS**

29 5. ***The followings are terms used in this Standard with the***
30 ***meaning specified:***

31 ***Claim is the amount requested by the contractor to the employer as***
32 ***reimbursement costs which is not included in the contract amount.***

33 ***Constructions in Progress are assets, which are in the process of***
34 ***construction.***



1 ***Construction Contract is a contract specifically negotiated for the***
2 ***construction of an asset or a combination of assets that are closely***
3 ***interrelated or interdependent in terms of their design, technology, and***
4 ***function or their ultimate purpose or use.***

5 ***Contractor is an entity that enters into a contract to build structures, or***
6 ***providing construction services for other entities in accordance with the***
7 ***specification determined in the construction contract.***

8 ***Down payment is the amount received by the contractor prior to***
9 ***carrying out the assignment to meet the construction contract.***

10 ***Employer is an entity that conducts construction contract with a third***
11 ***party to build or render construction services.***

12 ***Progress billing is the amount invoiced for works as stated in the***
13 ***contract.***

14 ***Retention is the unpaid amount of progress billing until the fulfillment of***
15 ***the conditions as stated in the contract.***

16 **CONSTRUCTION IN PROGRESS**

17 6. Construction in Progress includes land, equipments and
18 machineries, buildings and properties, roads, irrigation and transmission
19 networks, and other fixed assets, the acquisition and/or their development
20 process of which require a certain period of time and is not yet finished.
21 Acquisition through construction contract commonly requires a certain period
22 of time. The acquisition period can be less or more than one accounting
23 period.

24 7. The acquisition of assets can be conducted by self-constructed or
25 through the third party under construction contract.

26 **CONSTRUCTION CONTRACT**

27 8. A construction contract may relate to the acquisition of a number
28 of assets that are closely relate to or depend upon each other in design,
29 technology, function or purpose, as well as main usage. Example of such
30 contract is a construction of irrigation network.

31 9. A construction contract may include:

- 32 (a) A contract for acquiring services which are directly related to the
33 planning of asset construction, such as architectural design.
- 34 (b) A contract for acquiring or constructing the assets;
- 35 (c) A contract for acquiring services directly related to the supervision of
36 asset construction, which includes construction management and value
37 engineering;
- 38 (d) A contract for demolishing or restoring assets and the restoration of the
39 environment.



COMBINING AND SEGMENTING OF THE CONSTRUCTION CONTRACTS

10. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable component of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

11. When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract, when:

- (a) Separate proposals have been submitted for each asset;**
- (b) Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and**
- (c) The costs of each asset can be identified.**

12. Contract may provide a clause for the construction of additional assets at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:

- (a) The additional asset differs significantly in design, technology or function from the assets covered by the original contract; or**
- (b) The price of the additional asset is negotiated without regard to the original contract price.**

RECOGNITION OF CONSTRUCTION IN PROGRESS

13. A tangible asset is recognized as a Construction in Progress, when:

- (a) It is probable that the future economic benefits that are associated with such asset will be obtained;**
- (b) The acquisition cost of such asset can be measured reliably; and**
- (c) Such asset is still in the construction process.**

14. Construction in Progress is usually an asset which is intended for the long-term use of government operations or for the community benefit and therefore is classified as fixed assets.

15. Construction in Progress should be transferred to the respective fixed assets, if the following criteria are fulfilled:

- (a) The construction has been substantially completed; and**
- (b) It provides benefit/services in accordance with the objective of its acquisition.**



1 16. A construction in progress should be transferred to the respective
2 fixed assets after the construction work is stated as has been completed and
3 is ready for use in accordance with the objective of its acquisition.

4 **MEASUREMENT**

5 ***17. Construction in Progress should be recorded at its***
6 ***acquisition costs.***

8 **Construction Costs**

9 ***18. The costs of self-construction should include among others:***

- 10 ***(a) Costs that are related directly to the construction activity;***
11 ***(b) Costs that are attributable to construction activity in general and***
12 ***can be allocated to the construction; and***
13 ***(c) Other costs that are specifically paid in relation to the construction.***

14 19. Costs that relate directly to activities of a construction should
15 among others comprise:

- 16 (a) Site labor costs, including site supervision;
17 (b) Costs of materials used in construction;
18 (c) Costs of moving plant, equipment and materials to and from the
19 construction site;
20 (d) Cost of hiring plant and equipment;
21 (e) Costs of design and technical assistance that are directly related to the
22 construction.

23 20. Costs that can be attributed to construction activities in general
24 and can be allocated to a certain construction include:

- 25 (a) Insurance;
26 (b) Costs of design and technical assistance that are not directly related to a
27 specific construction;
28 (c) Other costs that can be identified for the related construction activities
29 such as inspection costs.

30 Such costs are allocated using methods that are systematic and rational and
31 are consistently applied to all costs having similar characteristics. The
32 recommendable method for cost allocation is the weighted average method
33 on the basis of direct cost proportion.

34 ***21. The costs of construction as performed by the contractor***
35 ***according to the construction contract include:***

- 36 ***(a) The progress billing paid to the contractor in relation to the level of***
37 ***work completion;***



- 1 **(b) The amount payable to the contractor in relation to the completed**
2 **but unpaid works at the reporting date;**
- 3 **(c) Payment of the claims to the contractor or third parties in relation**
4 **to the execution of the construction contract.**
- 5 22. Contractor comprises the main contractor and subcontractors.
- 6 23. Payment on the construction contract in general should be
7 executed in stages (in progress payments) based on the level of completion
8 determined by the construction contract. Each payment should be recorded
9 as an addition to the Construction in Progress.
- 10 24. Claims may arise, for example, from delays caused by employer,
11 errors in the specification or design, and dispute on deviation of the contract
12 execution.
- 13 **25. If the construction is financed from loan, then the borrowing**
14 **costs arising during the construction period should be capitalized and**
15 **added to the construction costs, as long as such costs can be reliably**
16 **identified and determined.**
- 17 26. The borrowing costs comprise the interest expense and other
18 expense arising in relation to the loan used to finance the construction.
- 19 **27. The amount of the borrowing costs that are capitalized**
20 **should not exceed the amount of interest expense paid at the current**
21 **period.**
- 22 **28. If the loans are used to finance several assets which are**
23 **obtained in a certain period, the borrowing costs of the related period**
24 **should be allocated to each construction by using the weighted average**
25 **method to the total expenditure of construction costs.**
- 26 **29. If the construction building activities are temporarily**
27 **suspended for the reasons that are not related to force majeure**
28 **conditions, then the borrowing costs to be paid during the suspended**
29 **period of construction should be capitalized.**
- 30 30. The suspension of the construction contract works may occur due
31 to various reasons such as the condition of force majeure or the intervention of
32 the employer or the authorizing parties. If it is caused by the intervention of
33 the employer or the authorizing parties, then the borrowing costs during the
34 suspension period should be capitalized. On the contrary, if the suspension is
35 caused by the force majeure, the borrowing costs should not be capitalized,
36 but, it should be recorded as interest expense of the related period.
- 37 **31. If a construction contract comprises several works with**
38 **different completion period, then the works that have already been**
39 **completed should not be charged with the borrowing cost. Borrowing**
40 **costs should only be capitalized for the works which are still in the**
41 **working process.**
- 42 32. A construction contract may comprise several types of assets,
43 which each can be identified as referred to in paragraph 11. If such works are



1 completed at different period of time, then the borrowing costs that should be
2 capitalized are only applied to the portion of construction contract or works
3 which have not yet been completed.

4 **DISCLOSURE**

5 **33. An entity should disclose information on the Construction in**
6 **Progress at the end of the accounting period:**

- 7 **(a) Detail of the contract of construction in progress including the level**
8 **of completion and the expected period of completion;**
9 **(b) The construction contract value and its source of financing;**
10 **(c) The amount of costs already disbursed;**
11 **(d) The advanced payment already given;**
12 **(e) Retention.**

13 34. A construction contract generally contains provisions about
14 retention. For example, the amount due but still kept by the employer during
15 the maintenance period. The amount of the retention should be disclosed in
16 the Notes to the Financial Statements.

17 35. Assets can be financed from certain financial sources. The
18 inclusion of the financial sources is aimed at providing an outlook of the
19 financial sources and its absorption up to a certain date.

20 **EFFECTIVE DATE**

21 **36. This Government Accounting Standard becomes effective for**
22 **the financial statements covering periods beginning with budget year of**
23 **2005.**

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

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Head of Administration Bureau,

(Signed)

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