

Study on
ACCOUNTING FOR FIXED ASSETS

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ACRONYMS

BAKUN	State Financial Accounting Agency (Badan Akuntansi Keuangan Negara)
BPN	State Land Office (Badan Pertanahan Nasional)
FASAB	Federal Accounting Standards Advisory Board
IAI	Indonesian Institute of Accountants
IASB	International Accounting Standard Board
IPSAS	International Public Sector Accounting Standard
MOD	Ministry of Defence (Departemen Pertahanan)
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs (Departemen Dalam Negeri)
PSAK	Statement of Financial Accounting Standard (Pernyataan Standar Akuntansi Keuangan)
SFFAS	Statement of Federal Financial Accounting Standard of USA Federal Government
USA	United States of America

STUDY ON ACCOUNTING FOR FIXED ASSETS

INTRODUCTION

At the present time, the Committee of Government Accounting Standard Development, hereinafter referred to as The Committee, has developed one (1) Conceptual Framework for Government Accounting and three (3) other standards, namely:

- (1) Statement No. 1 – Presentation of Financial Statements, hereinafter referred to as Draft No. 1;
- (2) Statement No. 2 – Budget Realization Report, hereinafter referred to as Draft No. 2;
- (3) Statement No. 3 – Cash Flow Statements, hereinafter referred to as Draft No. 3;

Based on the public hearing and discussion among the committee members, decision was made to accompany the above standards with others, including fixed assets. For that reason, study on fixed assets was taken place as a reference for government accounting standard development in Indonesia.

This report presents a study of the accounting standards for fixed assets developed by several government accounting standard bodies across the nations. This also summarizes financial reporting practices applied by several countries in the term of presenting fixed assets on the financial statements.

Due to the dissimilarity in purpose and necessity of existence between the government and private institutions, a range of subjects for study takes up various topics such as heritage assets, military assets, and infrastructure assets. The identification process is also included the implication of those topics to the Indonesian environment, especially the existing law and system of fixed assets.

In preparing this study, we had a thorough overview of the systems concerning fixed asset items on the Indonesian government asset management system. We also elaborate the information dealing with Land and make some depth discussion with the people in charge of National Land Office (BPN). We proceeded our study to identify the need of government accounting standard for fixed asset and to suggest the topics that should be asserted on the proposed standard.

Although this study is performed in a short period of time, it is hoped that this could be a useful reference tool for explaining the fixed assets in Indonesia and thus improves the quality of proposed accounting standard for fixed assets.

DRAFT NO. 1 AND IPSAS

DRAFT 1 – PRESENTATION OF FINANCIAL STATEMENTS

Draft No. 1 provides the objectives, scope, and accounting basis of financial reporting. Moreover, Draft No. 1 also prescribes Structure and Contents of Financial Statements, including fixed assets definition. At paragraph 48-49, Draft No. 1 defines fixed assets as tangible assets that will benefit for a period of greater than twelve months and are used in government activities or public services.

Draft No. 1 also directs a classification of fixed assets as following,

- (a) Land;
- (b) Machinery and equipments;
- (c) Buildings;
- (d) Roads, irrigation, and networks;
- (e) Other fixed assets;
- (f) Constructions in progress.

Furthermore Draft No.1 prescribes fixed assets recognition at paragraph 52-53 and fixed assets measurement at paragraph 54. Each of subject matters will be explained later at the other parts of this paper.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

IPSAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

Unlike Draft No. 1, IPSAS 1 does not describe detail information dealing with fixed assets. IPSAS 1 only gives a guide in dividing assets into two classifications, namely current and non-current assets. The detail prescription is explained on IPSAS 17, “Property, Plant, and Equipment”.

IPSAS 17 – PROPERTY, PLANT, AND EQUIPMENT (PP&E)

The objective of this standard is to prescribe the accounting treatment, including the timing of recognition, the determination of their carrying value, and the depreciation charges in relation to them.

This standard applies to all public sector entities, which prepare and present financial statements under the accrual basis. However, it does not apply to regenerative and non-regenerative natural resources.

Definition of Assets

IPSAS 17 directs recognition of PP&E by using two criteria as followings,

- (a) *it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and*
- (b) *the cost or fair value of the asset to the entity can be measured reliably*¹

¹ IFAC Public Sector Committee, IPSAS 17, Property, Plant, and Equipment, 2001, par 13.

The standard does not require an entity to recognize heritage assets. If an entity does so, it must apply disclosure requirements and may apply the measurement requirements of this standard as prescribed at paragraph 73 to 79.

This statement considers that infrastructure assets meet the definition of PP&E and should be accounted for in accordance with this standard. The same treatment is also applicable for military assets.

Recognition and Measurement

When an item of PP&E is acquired, IPSAS 17 would measure it by its cost. Where an asset is acquired at no cost, or for a nominal cost, IPSAS 17 uses its fair value as at the date of acquisition as its cost.

In the case that there is a subsequent expenditure for an item of PP&E, IPSAS 17 classifies subsequent expenditure into two categories. If the expenditure has future economic benefits or service potential over the total life of the asset, it is added to the carrying amount of the assets. If not, other subsequent expenditure should be recognized as expenses in the period in which they are incurred.

If the asset is on disposal or permanently withdrawn from use and no future economic benefits or service potential is expected, an item of PP&E should be eliminated. Gains or losses arising from the retirement or disposal should be recognized.

Since IPSAS applies accrual basis for financial reporting presentation and recognizes decreases in economic benefits, this statement requires an entity to depreciate PP&E based on a systematic basis over its useful life.

RECOGNITION AND VALUATION

Based on Organisation for Economic Co-operation and Development (OECD) Documents 21-22 November 2002, "Key Issues for Discussion and Background Papers", the government entity has certain types of assets that does not present in the private sector. The paper particularly identifies and discusses three (3) types of fixed assets, namely heritage assets, military assets, and infrastructure assets. These assets will be a focus discussion of this section, however we provide some valuation methods and the one that is chosen by Draft No. 1.

GENERAL PRINCIPLE

Theoretically, there are several methods to value the assets. Each method has proponent and opponent. Historical cost method is used since this is more objective and reliable. On the contrary, current cost method is expected to give be more relevant information for the users. This is always an issue in asset valuation and it is valid for government assets as well.

Government Finance Statistics Manual 2001 recommends to use current market value for asset valuation² while IPSAS 17 advocates the use of historical cost at initial measurement.

For this case, Draft No. 1 has selected the general principle that it recognizes assets *if probable future economic benefits have been acquired or disposed by government entity, and the fair value or cost can be measured reliably.*

*Assets are recognized at the date of receipt or the ownership being transferred and or the controls being transferred.*³

According to Draft 1, the measurement principle is prescribed as follows,

(e) Fixed assets are recorded at acquisition cost. If the use of acquisition cost is not possible, value of fixed assets is based on estimated acquisition cost.

*The cost of a self-constructed asset is including direct costs for personnel, materials, and other indirect costs, such as preparation and supervisory costs, supporting materials, electrical energy, rent of equipments, other costs related to development of fixed assets.*⁴

HERITAGE ASSETS

Statement of Federal Financial Accounting Standard (SFFAS) of US Federal Government No. 16 defines heritage as Property, Plant, and Equipment (PP&E) that *“are unique for one or more of the following reasons:*

- *Historical or natural significance;*
- *Cultural, educational or artistic (e.g. aesthetic) importance; or*
- *Significant architectural characteristics.*⁵

Unlike other assets, heritage assets have long life cycles and they do not decrease in value over their life; in fact their value tends to increase.

International Public Sector Accounting Standard (IPSAS) No. 17 does not oblige an entity to recognize heritage assets. Nevertheless, if an entity does so, the disclosure requirements of this standard should be applied and measurement requirements on this standard could be employed⁶.

Since the fact above, the issues arose are dealing with the measurement method used to value the heritage assets. OECD Documents reveals that some countries value their heritage assets with the value of exceptional items being based on a valuation supplied by an international auction house, while others do not do so for existing but do so for new acquisitions. SFFAS No. 8 requires heritage assets to be reported as required supplementary stewardship information (RSSI) accompanying the financial statements of the Federal Government and the component units of the Federal Government responsible for such assets. The statement also requires

² International Monetary Fund, Government Finance Statistics Manual, 2001, par 7.5

³ Draft No. 1 – Presentation of Financial Statements, par 52-53

⁴ Ibid, par. 54 (e).

⁵ FASAB: Original Pronouncement, version 2.1, Statement of Federal Financial Accounting Standard (SFFAS) No. 16, 2001, p. 492 par 57.

⁶ IPSAS 17, par 7.

reporting heritage assets in term of physical units instead of fair value or other monetary values⁷. But, most OECD member countries treat that the heritage assets will not have a material effect on their fiscal finance⁸.

MULTI-USE OF HERITAGE ASSETS

Another issue concerning heritage assets is when government building located in a historical place. Is it normal assets or heritage assets? In this case, IPSAS 17 guides that they *“may be recognized and measured on the same basis as other items of property, plant, and equipment.”*⁹

For this issue SFFAS 16 tries to differentiate these two assets by considering a multi-use heritage assets if *“the predominant use of the asset is in general government operations”*.¹⁰ If an asset is considered as multi-use heritage assets, the cost of acquisition, betterment, or reconstruction will be capitalized and depreciated.

HERITAGE ASSETS IN INDONESIA

Derived from asset management by Ministry of Finance Decree No. 225/MK/V/4/1971 dated 13 April 1971, heritage assets are not treated differently. They are under building classifications and no rules in measuring these assets. Most of heritage assets are recorded with no value on asset management system.

MILITARY ASSETS

Due to its unique characteristic, military asset usually is treated differently. Some countries try to identify them so that they could be separated one to another and different treatment would be applied.

If they are to be treated differently, defining what is a military asset needs to be made clear. Some countries, including US, differentiate between military’s general purpose assets and its military-specific assets. The latter will not be capitalized, but expensed. However, since September 30, 2002, SFFAS 23, *“Eliminating the category National Defense Property, Plant, and equipment”*, has removed national defense asset from stewardship information and report them on the Balance Sheet as part of general property, plant, and equipment. The same rule is applied in IPSAS 17 that treats specialist military assets as an asset in accordance with general PP&E¹¹.

Other countries have generally taken the view that all military equipment should be capitalized and depreciated. The method adopted is *to depreciate them on a regular basis and then to write them off as an extraordinary item if they are lost*¹².

⁷ FASAB: Original Pronouncement, version 2.1, Statement of Federal Financial Accounting Standard (SFFAS) No. 8, 2001, p. 689-690.

⁸ See OECD Document, p. 39.

⁹ Ibid, par 9.

¹⁰ SFFAS 16, par 6.

¹¹ IPSAS 17, par. 20.

¹² OECD Document, p. 39.

MILITARY ASSETS IN INDONESIA

Based on a list of assets managed by ministries, we do not find the assets that specifically used in military purposes. From our interview, it reveals that Ministry of Defense (MOD) has not ever submitted yet its assets to Ministry of Finance (MOF). The recent development, MOD will submit its a list of assets and they will be treated like other assets and they are included in the existing main classification accordingly.

INFRASTRUCTURE ASSETS

There is no common definition used to describe infrastructure assets, however most countries agree that this kind of assets has a significant value in government assets. IPSAS 17 states that assets are considered as infrastructure assets if they have some or all of the following characteristics:

- “ (a) they are part of a system network;*
- (b) they are specialized in nature and do not have alternative uses;*
- (c) they are immovable;*
- (d) they may be subject to constraints on disposal.”¹³*

The main issue for infrastructure assets is due to their extremely long useful lives. This nature will cause:

- (1) the difficulty in deciding depreciation schedules. For that reason, infrastructure assets are treated as infinite life-span assets so that some countries do not depreciate them.
- (2) the need for maintenance expenditures. Having infrastructure assets point toward that government has to commit in providing funds to maintain them so that the assets still remain to give benefits as expected.
- (3) the difficulty to estimate the original acquisition costs. When historical method is used, it is often difficult to estimate the original acquisition cost, especially in determining the beginning balance.

INFRASTRUCTURE ASSETS IN INDONESIA

Based on a list of assets managed by ministries, we find the assets having criteria of infrastructure, such as roads, bridges, and system networks. Some of them are built colonial era and the others are built at the recent time. For that reason, not all of the infrastructure assets have their value in the record of asset management system while other assets built at the present time might have value on their records.

ACCOUNTING FOR LAND

LAW OF LAND IN INDONESIA

Article 33 (3) of Indonesian Constitution states that the land, the waters and the natural riches contained therein shall be controlled¹⁴ by

¹³ Ibid, par 21.

the State and exploited to the greatest benefit of the people. In implementing this article, particularly for land, Law No. 5 of 1960 recognizes other rights, beside rights of ownership. The law covers some rights - mostly those to Indonesian citizens – namely:

(1) Rights of ownership (known as “Hak Milik”),

This refers to absolute ownership of land and corresponds to a fee simple or freehold title in common law jurisdictions. This right can only be held by an Indonesian citizen, not a corporate entity whether local or foreign. This right of ownership is held in perpetuity and it can be sold, transferred, and mortgaged.

(2) Rights to Build (known as “Hak Guna Bangunan” or HGB),

This is the right to construct a building on land for a period of 20 or 30 years (renewable for another term of 20 years). This right can be sold, exchanged, transferred, and mortgaged, and can be held directly by Indonesian citizen or corporate entity established by Indonesian law.

(3) Rights of Exploitation (known as “Hak Guna Usaha” or HGU),

This is the right to exploit State-controlled land for agriculture, fishery or husbandry purposes for a period of up to 35 years with a possible 25 years extension.

This right can be sold, exchanged, transferred, and mortgaged, and can be held directly by Indonesian citizen or corporate entity established by Indonesian law.

(4) Rights of use (known as “Hak Pakai” or HP),

This is the right to use State-controlled or other land by public or private persons or entities for a specific purpose for a definite period or occasionally for an indefinite period. This land right can be sold, exchanged or transferred.

This right may be held by an Indonesian individual or entity or foreigner permanently domiciled in Indonesia, or a foreign legal entity with a representative office in Indonesia such as foreign banks, embassies, or Departments, Non-Departmental State Agencies, and Regional Governments.

(5) Rights to rent (known as “Hak Sewa”)

This is the right to use land controlled by another private party (the lessor) for building purposes. The right cannot be registered at the land office and therefore does not exist in certificate form. The law does not stipulate a period for such lease agreements and whether this can be transferred or not depends on the original agreement between the parties.

¹⁴ Translated from Indonesian term of “Menguasai” to differentiate with “Memiliki” meaning owned in English.

This right may be held by a foreigner permanently domiciled in Indonesia or a foreign legal entity having a representative office in Indonesia. It cannot be mortgaged.

STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 47 (KNOWN AS “PSAK 47)

Due to the above Law, Indonesian Institute of Accountants (IAI) issued Statement of Financial Accounting Standard No. 47, “Accounting for Land”. This statement prescribes the accounting treatment for land related to the existing law.

LAND

According to this statement, except for Rights to Rent (Hak Sewa) all other rights are defined as “Land”. All costs to acquire land, such as acquisition costs, land development costs including construction cost if land is not ready to use, relocation cost, and commission fee, are capitalized and represented under fixed asset on balance sheet. PSAK 47 also requires a disclosure regarding type and term of rights. On the contrary, right to rent is treated as prepaid expenses.

DEFERRED CHARGES RELATED TO LAND RIGHTS

Excluding right of ownership, all costs incurred to obtain land rights from the state, such as legal audit fee, re-dimension costs, notary fee, taxes, and authorized fee to state, are treated as Deferred Charge in balance sheet. Due to its differences in nature and amortization pattern, its presentation is separated from other deferred charges.

LAND RIGHTS FOR GOVERNMENT ENTITY

There is no clear definition regarding land rights in central government assets, however a guide of Finance Decree No. 225/MK/V/4/1971 excludes lands from government assets if there is no land rights over the land.

For local government, MoHA Decree No. 11 Year 2001 dated 1 February 2001 defines land rights that can be held by local government. It states that local government might have land rights as follows,

- (1) Right of Use, if the use of land directly supports government functions.

According to Government Regulation No. 40 Year 1996 article 54, Right of Use can be transferred for:

- (a) Capital Investment
 - (b) Grant
 - (c) Exchange
 - (d) Selling and Purchasing
 - (e) Inheritance
- (2) Right to Manage (known as “Hak Pengelolaan” or HPL), if the use of land indirectly supports government function.

Right to Manage (Hak Pengelolaan) is stated on Government Decree No. PP 40 Year 1996. Article 1 states that Right to Manage is right to take control owned by state, which its implementation is delegated to the right holder.

Right to Manage is registered and evidenced by certificate of land rights.

TWO LAND RIGHTS OVER A CERTAIN LOCATION OF LAND

The interesting point for the government land rights is that over the Right to Manage (HPL) owned by the government entity, it is allowed to give another land rights, namely HGB or HGU or HP, to another entity. If this happens, the government entity should release a part of its HPL that has been handed over to another entity by revising its registration and land certificate. Unfortunately, this is not a common practice. The HPL has never been revised even though there is another land right over HPL at certain location of land. Thus, it is possible that there are two (2) land rights over a certain location of land, for example HPL and HGB.

At accounting viewpoint, the issue arose for this condition is the valuation method to adjust value of HPL. This is critical issue for local government since the value of HPL could reach as much as half of the total assets¹⁵.

NO TIME LIMIT FOR THE LAND RIGHTS HELD BY GOVERNMENT ENTITY

Unlike for private institutions, special case for the government, the time period of the land rights, for both Right to Use and Right to Manage, is not limited by certain period of time and it is held by the government entity as long as the land is still used by government entity to perform its duty. This condition causes that there is no cost required to maintain the land rights.

PSAK 47 assumes that there is a time limit for land rights held by entity so that it divides the acquisition cost into two classifications, namely "Land" and "Deferred Charge". Since this assumption is not valid for government entity, we suggest that all costs incurred to acquire land and land right are treated in the same way and they are gathered into one account "Land" under caption of fixed asset.

DEPRECIATION

Neither Draft Conceptual Framework for Government Accounting nor Draft No.1 defines the term of expenses. This term is used at the first time on Draft No. 1 when prescribing Financial Performance Report (known as "Laporan Kinerja Keuangan") but there is no definition related to this term. Draft No 2 regarding Budget Realization report does not define expenses either. It only defines expenditure as all general cash expenditures made by central or local government that reduce in current equity fund within certain fiscal

¹⁵ See the Balance Sheet of District Tangerang for the year of 2001.

year period and no money return will be received by central or local government.

Presenting Financial Performance Report for government is not required according to Draft 1. This report is advocated if government entity prepares its financial statement using accrual basis. When an entity prepares Financial Performance Report, it is allowed to provide expense information on the report including depreciation and amortization expenses. In other words, depreciation expense is not recognized on required financial statement, however it can be found on Financial Performance Report using accrual basis.

The above explanation is rather different with international public sector accounting standard. Framework for the Preparation and Presentation of Financial Statements issued by IASB define the expenses as *“decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.”*¹⁶

This concept recognizes decreases in economic benefits. In the case of fixed assets, IPSAS 17 requires to allocate a depreciable amount of fixed asset on systematic basis over its useful life on paragraph 54.

ASSET MANAGEMENT FOR CENTRAL AND LOCAL GOVERNMENT OF INDONESIA

CENTRAL GOVERNMENT

Central government assets are managed according to Ministry of Finance Decree No. 225/MK/V/4/1971 dated 13 April 1971. This decree defines central government assets as all goods and assets owned by central government, except for government separated assets, such as government enterprises, and assets of autonomy district.

According to this decree, central government assets consist of:

- (1) Land;
- (2) Buildings;
- (3) Monuments;
- (4) Machines and equipment;
- (5) Books;
- (6) Transportation equipment;
- (7) Hospital tools and equipment;
- (8) Animals;
- (9) Inventory;

¹⁶ International Accounting Standard Board, Framework for the preparation and Presentation of Financial Statements, July 1989, par.70 (b)

In 1999, Minister of Finance issued the decree No. 18/KMK.018/1999 dated 14 January 1999 detailing the classification.

As seen at the above classification of central government asset, the existing asset management regulation considers the inventory as a part of fixed asset. From the accounting perspective fixed assets and inventory should be differed since their natures is definitely dissimilar.

From interview with the officer of State Land Office (BPN) it reveals that the Ministry of Finance Decree No.118 does not differentiate state assets with government assets. It can be seen that this decree includes natural resources, such as forest. The natural resources should be as state assets, not government assets. Since we are developing the standard for the government reporting, this asset should be excluded from the government asset and not reported as fixed assets on government financial reports. To clarify and differentiate these assets, the decree no. 118 should be revised. The government assets are managed by Ministry of Finance while state assets, in this case land, are managed by State Land Office (BPN).

LOCAL GOVERNMENT

Local governments manage their assets guided by Ministry of Home Affairs (MoHA) Decree No. 11 Year 2001 dated 1 February 2001. This decree defines local government assets as all local government tangible assets, which are owned or controlled by local government and can be valued, counted, and measured or weighted, including animals and plants except for cash and marketable securities.

According to the above MoHA decree, there is no significant different classification with the one used by the central government.

MAPPING ASSET MANAGEMENT TO ACCOUNTING SYSTEM

Since the classification of asset management and accounting system does not match perfectly, mapping between two systems are necessary and considered as follows,

(1) Land;

- (a) Land for building (known as “tanah persil”), e.g. Land for residence, for industry, for working place, etc.;
- (b) Land for the non-building (known as “tanah non-persil”), e.g. Land for lake, for dam, for irrigation field, for plant, for forest, etc.;
- (c) Land for a clear field (known as “tanah lapangan”), e.g. Land for sport activities, for stock place, for airfield, for roads, for water building, for heritage, for graveyard, etc.

(2) Machinery and equipments;

- (a) Heavy machinery, e.g. tractor, bulldozer, etc.;
- (b) Transportation equipments, e.g. airplanes, ship, car, motorcycle, etc.;

- (c) Machinery shop equipments, e.g. ;
- (d) Agriculture equipments;
- (e) Office and housekeeping equipments.
- (f) Communication, telecommunication, and transmission equipments;
- (g) Medical equipments;
- (h) Laboratory equipments;
- (i) Weapons equipments;
- (j) Computers;
- (k) Exploration equipments;
- (l) Drilling equipments;
- (m) Production, processing, and purifier equipments;
- (n) Safety equipments;
- (o) Display equipments;
- (3) Buildings;
 - (a) Buildings;
 - (b) Monument/heritage buildings;
 - (c) Tower Building;
 - (d) Signs and symbols;
- (4) Roads, irrigation, and networks;
 - (b) Roads and Bridges;
 - (c) Water Building;
 - (d) Installations;
 - (e) Networks;
- (5) Other fixed assets;
 - (a) Books;
 - (b) Art, culture, and sport related assets;
 - (c) Animals;
 - (d) Fishes;
 - (e) Plants.

At the present time, MOF and Parliament have been discussing the draft of state treasury law. This law will govern the state assets in article 27. If it is approved all regulations dealing with state and government assets will be influenced.

ASSET VALUATION

As mentioned before, most of significant government assets are recorded without value. In 1995, to complete the record of assets,

Head of BAKUN issued Circular Letter No. SE-01/AK/1995 dated 5 January 1995 regarding the Procedure to Estimate the value of Land and Building that have no value on their record. This letter consists procedures to estimate,

- (1) Land, by using yearly adjustment coefficient. Year of 1994 was selected as a base year.
- (2) Building, by using standard price and coefficient of building.

Since the last guidance of asset valuation was determined in 1995, it is needed to have the new one for the purpose of establishing the beginning balance both central and local government as well.

CONSTRUCTION IN PROGRESS

The term of constructions in Progress is referred to assets being constructed over extended periods of time. Examples include buildings and infrastructure assets. These assets contrast with simple assets, which are ready for use when acquired, such as motor vehicles and equipment.

Countries use several different terms for construction in progress but most of countries, such as Japan, Australia, and USA use the term of construction in progress for this asset. Some countries use different term for such assets.

Presenting construction in progress on financial statement varies among countries. Many countries put the information of construction on notes to financial statement instead of on the face of Balance Sheet. On the other hand, City of Barcelona put this information on the face under caption of Fixed Assets Pending Classification.

Since the construction in progress will be moved to the corresponding fixed asset upon completion of the assets, the recognition and valuation principles should follow the standard, which regulates the fixed assets.

PRESENTATION PRACTICES IN SEVERAL COUNTRIES

CANADA

Derived from Annual Financial Report for the fiscal year 2000-2001, the cost of acquiring land, building, structures, equipment, and other capital property are recorded as expenditures at the time of acquisition or construction.¹⁷

The consequence of this accounting treatment, there is no fixed assets information on Statement of Assets and Liabilities.

¹⁷ Government of Canada, Public Accounts of Canada 2001, Volume I, p. 1-11

Figure 1 – Asset Presentation, extracted from Statement of Assets and Liabilities of Canada Government

ASSETS		
CASH AND ACCOUNTS RECEIVABLE —		
Cash in bank	13,237	13,025
Cash in transit	6,956	5,386
Less outstanding cheques and warrants	20,193	18,411
Total cash	4,599	3,900
Accounts receivable (net of allowance for doubtful accounts of \$1,318 million (\$1,373 million in 2004))	15,394	14,511
TOTAL CASH AND ACCOUNTS RECEIVABLE	19,186	18,316
FOREIGN EXCHANGE ACCOUNTS (Note 9)	50,270	41,494
LOANS, INVESTMENTS AND ADVANCES —		
Enterprise Crown corporations and other government business enterprises (Notes 10 and 13)	10,885	10,562
National governments, including developing countries and international organizations (Note 11)	7,541	7,316
Provincial and territorial governments and other loans, investments and advances	5,861	4,379
Portfolio investments	1,240	1,240
Less allowance for valuation	24,527	23,497
TOTAL LOANS, INVESTMENTS AND ADVANCES	16,042	14,344
TOTAL ASSETS	85,498	74,154
ACCUMULATED DEFICIT (Note 5)	547,378	564,526
The accompanying notes are an integral part of these statements. Details (omitted) can be found in other sections of this volume.		

UNITED STATES

Based on Financial Report of the United States Government report property, plant, and equipment on the face of Balance Sheet. Note to financial statement describes that the category of property, plant, and equipment consists of tangible assets including land, building, structures, automated data processing software, other assets to provide goods and services.

Figure 2 – Asset Presentation, extracted from Balance Sheet of United States Government

United States Government Balance Sheets as of September 30, 2002 and September 30, 2001		
(In billions of dollars)	2002	2001
Assets:		
Cash and other monetary assets (Note 2)	141.6	108.0
Accounts receivable, net (Note 3)	32.0	34.2
Loans receivable, net (Note 4)	219.2	208.9
Taxes receivable, net (Note 5)	21.4	21.1
Inventories and related property, net (Note 6)	192.2	183.8
Property, plant and equipment, net (Note 7)	324.7	306.7
Other assets (Note 8)	65.4	63.4
Total assets	996.5	926.1
Liabilities:		
Accounts payable (Note 9)	55.8	56.2
Federal debt securities held by the public and accrued interest (Note 10)	3,573.2	3,359.3
Federal employee and veteran benefits payable (Note 11)	3,589.4	3,360.8
Environmental and disposal liabilities (Note 12)	273.0	306.8
Benefits due and payable (Note 13)	95.3	86.0
Loan guarantee liabilities (Note 4)	28.1	27.7
Other liabilities (Note 14)	201.9	188.1
Total liabilities	7,816.7	7,384.9
Commitments and contingencies (Note 18)		
Net position	(6,820.2)	(6,458.8)
Total liabilities and net position	996.5	926.1

Note 7 reveals that construction in progress is a part of Property, Plant, and Equipment item as shown in figure below,

Figure 3 – PP&E Information, extracted from Notes to Financial Statement of United States Government

Property, Plant and Equipment as of September 30						
	Accumulated Depreciation/ Amortization			Accumulated Depreciation/ Amortization		
	Cost	Net		Cost	Net	
(In billions of dollars)	2002			2001		
Buildings, structures, and facilities	301.0	154.3		292.8	151.2	
Furniture, fixtures, and equipment	177.4	78.4		160.3	71.3	
Construction in progress	61.5	61.5		54.4	54.4	
Land and land improvements	31.3	23.4		32.0	23.2	
Automated data processing software	6.9	3.7		5.7	2.8	
Assets under capital lease	1.9	1.2		1.7	1.1	
Leasehold improvements	3.3	1.7		3.1	1.7	
Other property, plant and equipment	0.5	0.5		1.0	1.0	
Total property, plant and equipment, net	583.8	324.7		551.0	306.7	

Other tangible assets are not included in this category but they are reported separately in Stewardship Information as required by SFFAS No. 8, namely National Defense Assets, Stewardship Land, and Heritage Assets. Specifically for National Defense Assets, in June 2002 FASAB approved SFFAS No. 23 recommending national defense assets from stewardship information and report them on the Balance Sheet as a part of general property, plant, and equipment. This standard is effective for years ending after September 30, 2002.

AUSTRALIA

The Annual Report 2001-02 of Department of Treasury and Finance divulges that Land and Building provided on Statement on Financial Position are valued by fair value based on independent valuation.

Figure 4 – Asset Presentation, extracted from Notes to Financial Statement of Department of Treasury and Finance

	2002 \$000	2001 \$000
Land and Buildings		
Land		
At Independent Valuation 2001	71 805	78 305
Buildings (including Heritage Buildings)		
At Independent Valuation 2001	96 407	98 207
Less: Accumulated Depreciation	(4 387)	–
	92 020	98 207
Building Improvements, Fitouts and Grounds Development – at Cost	5 050	1 301
Less: Accumulated Depreciation	(418)	(731)
	4 632	570
Construction in Progress – at Cost	2 411	1 325
Total Land and Buildings	170 868	178 407
Plant and Equipment		
Office Equipment, Computer Equipment – at Cost	61 413	30 679
Less: Accumulated Depreciation	(31 484)	(25 018)
	29 929	5 661
Construction in Progress – at Cost	4 757	25 433
Motor Vehicles under Finance Lease	252 419	199 769
Less: Accumulated Amortisation	(33 844)	(5 483)
	218 575	194 286
Total Plant and Equipment	253 261	225 380
Total Property, Plant and Equipment	424 129	403 787
Valuations of Land and Buildings		
The basis of valuation of land and buildings adopted as at 30 June 2002 is fair value, being the depreciated current replacement cost of an asset's remaining future economic benefits. The latest revaluations were based on independent assessments, carried out by Heron Todd White.		

From the figure 4 above, the construction in progress is divided into several items corresponding to the type of fixed assets, which is being constructed. Building which is being constructed is classified under Building while Plant and Equipment, which is being installed, is classified under Plant and Equipment.

CITY OF BARCELONA

The Balance sheet of City of Barcelona for the year 2001 reveals that fixed asset information is put on the face of Balance Sheet.

Figure 5 – Fixed Asset Presentation, extracted from Balance Sheet of City of Barcelona

City of Barcelona			
Balance sheet as of December 31, 2001 and 2000			
(In thousands of euros)			
Assets		As of December 31, 2001	As of December 31, 2000
	Note		
Fixed assets and infrastructures		5,250,240	5,254,347
Tangible fixed assets	3	5,463,204	5,511,429
Tangible fixed assets assigned to municipal agencies and third parties	3	(600,624)	(562,704)
Accumulated depreciation	3	(287,309)	(305,265)
Fixed assets pending classification	3	469,832	343,304
Provision for depreciation, fixed assets pending classification		(32,196)	-
Investments in infrastructure and assets for public use	3	4,319,112	4,181,361
Investments assigned for public use	3 & 7	(4,319,112)	(4,180,549)
Investments for public use: HOLSA	2.3	237,333	266,771
Long-term financial investments	4	160,934	157,135
Long-term assets		5,411,174	5,411,482

City of Barcelona in year 2001 report used the real market value currently in use carried out by an independent appraisal company for Lands and buildings acquired prior to January 1, 1992. In the case of property declared to be of historical-artistic interest, this value is equivalent to the cost of reconstruction. Subsequent additions are assessed at their purchasing price or, in the case of buildings received free of charge, at their appraisal values.

Machinery, installations, fittings, data processing equipment and vehicles acquired prior to January 1, 1992, were given at the current value, as estimated by the City of Barcelona. Subsequent additions are assessed at their purchasing price.

Repairs not contributing to an extension of the useful life, as well as maintenance costs are charged directly to the statement of revenue and expenses. The costs of any additions or improvements that extend the useful life of an asset are capitalized as an increase in its value.

CONCLUSION AND RECOMMENDATION

CONCLUSION

Based on the discussion described in previous sections, we conclude that,

- (1) Unlike Draft No. 1, IPSAS 1 does not describe detail information dealing with fixed assets. IPSAS 1 only gives a guide in dividing assets into two classifications, namely current and non-current assets. The detail prescription is explained on IPSAS 17, "Property, Plant, and Equipment".
- (2) IPSAS 17 treats Military and Infrastructure Assets similar to the other fixed assets however it is allowed to apply different valuation for Heritage Assets. SFFAS 23 also has removed national defense asset from stewardship information and report them on the Balance Sheet as part of general property, plant, and equipment.
- (3) It is possible that there are two (2) land rights over a certain location of land owned by government entities, for example HPL and HGB.
- (4) A special case for the government, the time period of the land rights, for both Right to Use (HP) and Right to Manage (HPL), is not limited by certain period of time and it is held by the government entity as long as the land is still used by government entity to perform its duty. This condition causes that there is no cost required to maintain the land rights.
- (5) According to Draft of Government Accounting Standard, depreciation expense is not recognized on required financial statement, however it can be found on Financial Performance Report using accrual basis.
- (6) The existing Indonesian asset management regulation considers the inventory as a part of fixed asset. In addition, this system is also included natural resources, such forest, as a part of assets managed by MOF.
- (7) At the present time, MOF and Parliament have been discussing the draft of state treasury law. This law will govern the state assets in article 27.
- (8) There is no guidance of asset valuation since 1995.
- (9) The construction in progress will be moved to the corresponding fixed asset upon completion of the assets so that the recognition and valuation principles should follow the fixed assets standard.
- (10) Presenting fixed assets on financial statement varies among countries. Many countries put the information of construction on the face of Balance Sheet. On the other hand, Government of Canada put the fixed assets information on separate list.

RECOMMENDATION

Based on our study we suggest some points to be considered as follows,

STATE AND GOVERNMENT ASSETS

Asset Management System

Ministry of Finance Decree No.118 does not differentiate state assets and government assets. It can be seen that this decree includes natural resources, such as forest. The natural resources should be as state assets, not government assets. Since we are developing the standard for the government reporting, this asset should be excluded from the government asset and not reported as fixed assets on government financial reports. To clarify and differentiate these assets, the decree no. 118 should be revised. The government assets are managed by Ministry of Finance while state assets, in this case land, are managed by State Land Office (BPN).

Draft of State Treasury Law

At the present time, MOF and Parliament have been discussing the draft of state treasury law. If it is approved all regulations dealing with state and government assets will be influenced. It is suggested that this Draft of Law should distinguish between state and government assets.

ACCOUNTING STANDARD FOR FIXED ASSETS

Name of Standard

Since the Draft No. 1 use the term of Fixed Assets, thus, the name of Standard should be "Accounting for Fixed Assets".

Objective and Scope of Standard

The objective of this standard is to prescribe the accounting treatment, including the timing of recognition, the determination of their carrying value, and the depreciation charges in relation to them.

This standard applies to all government entities, which prepare and present financial statements, however, it does not apply to regenerative and non-regenerative natural resources.

Definition of Fixed Assets

Refer to Draft No. 1, Fixed Assets are tangible assets that will benefit for a period of greater than twelve months and are used in government activities or public services.

The standard should state particularly that definition of fixed assets includes heritage assets, military assets, and infrastructures.

The standard should allow an entity to recognize heritage assets by using different valuation method. If an entity does so, the standard should require the disclosure describing the criteria and measurement method of heritage assets.

Recognition of Fixed Assets

Draft No. 1 and IPSAS 17 have the same idea dealing with recognition of fixed assets. These standards state that fixed assets are recognized if probable future economic benefits have been acquired or disposed by government entity, and the fair value or cost can be measured reliably.

In order to comply with International Public Sector Accounting Standard, it is suggested to exclude the standard related to fixed assets from Draft No. 1 since it not common to include the fixed asset rules on standard of presentation. All topics related to fixed assets should be governed on accounting standard for fixed assets, not on Draft No. 1.

Initial Measurement

Based on the IPSAS and practices in several countries, it is suggested that the standard adopts acquisition cost as a basis of measurement. If the use of acquisition cost is not possible, the use of estimated acquisition cost is considered to be initial measurement. Another alternative initial measurement is by using independent appraisal for fixed assets acquired prior a certain date as applied by City of Barcelona. The latter might be more practicable but it is not consistent with historical cost method.

Accounting for Land

Especially for accounting for land, it should be stated clearly that there is a different treatment with PSAK 47, which treat Land and Land Rights acquisition differently.

Since the time period of the land rights for government entities is not limited by certain period of time, there is no cost required to maintain the land rights. For that reason we suggest that all costs incurred to acquire land and to obtain land rights should be integrated under title of Land. This differs with the treatment prescribed on PSAK 47.

Depreciation

Refer to Framework and Draft No.1, there is no depreciation needed. However, if a government entity prepares financial statement under accrual basis accounting as stated in Draft No. 1, the entity is suggested to recognize depreciation expenses on it financial statements. For this purpose, the standard should define the depreciation and the acceptable allocation methods. Based on our study, we suggest employing the items on IPSAS 17 at paragraph 54-65 as a reference.

Other Points

Other points should be covered on proposed Accounting Standard for Fixed Assets including,

- (1) Component of Cost
- (2) Exchange of Assets
- (3) Subsequent Expenditure

- (4) Measurement to Initial Recognition (Revaluation)
- (5) Recoverability of the Carrying Amount
- (6) Retirement and Disposal
- (7) Disclosure

The substance of IPSAS 17 regarding all the above topics could be taken on the accounting standard for fixed assets.