TECHNICAL BULLETIN OF GOVERNMENT ACCOUNTING STANDARDS

TECHNICAL BULLETIN 05
DEPRECIATION

THE GOVERNMENT ACCOUNTING STANDARDS COMMITTEE (KSAP)

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CHAPTER I INTRODUCTION

Depreciation is defined in Government Accounting Standard No. 07 as an adjustment in value that reflects the decline in capacity and benefit of a certain asset, and the recording of depreciation represents one of the key features of the application of accrual-based accounting in the Government Accounting Standards.

Government Accounting Standard No. 07 governs the Depreciation in the sub-chapter measurement of Fixed Assets and the presentation thereof in the periods subsequent to the initial recognition of the assets. Paragraphs 53 to 57 of Government Accounting Standard No. 07 read as follows:

53. ***Fixed Assets should be presented at their acquisition cost deducted with any accumulated Depreciation. If some condition occurs where a revaluation is allowed, then the fixed asset will be presented with an adjustment to the fixed assets account and the corresponding equity account.***

54. The value adjustment of fixed assets should be carried out on a systematic basis over their useful lives. The applied Depreciation method should represent the assets’ economic benefits or the service potential flowing to the government. The Depreciation charge for each period should be credited to the carrying values of the fixed assets and debited to Equity from the Fixed Assets account.

55. The depreciable useful life of fixed assets must be reviewed periodically and if there is a significant difference from previous estimation, the current and future Depreciations have to be adjusted.

56. The methods of Depreciation that can be used are, among others:

(a) Straight-line method; or

(b) Double declining balance method; or

(c) Unit of production method.

57. ***Except for land and construction in progress, all fixed assets can be depreciated according to the nature and characteristics of such assets.***

The Depreciation of a Fixed Asset does not constitute the allocation of an expense over the period during which the Fixed Asset is used, unlike the situation in the commercial sector. Rather, depreciation in governmental accounting is intended to reveal the reduction in the value of the asset due to a decline in the asset’s potential benefit resulting from usage, wear and tear, and so forth. As stated in paragraph 53 above, in applying Depreciation a Fixed Asset continues to be presented based on its acquisition (or historical) cost, minus accumulated Depreciation.

Adjustments in the value of a Fixed Asset are brought about through the application of various systematic methods that accord with the useful life of the asset. The Depreciation method that is employed must be capable of describing the economic benefit or service potential that flows to the government from the asset. The value of Depreciation in each period is recorded in the Accumulated Depreciation Account, the contra account of which is Equity Fund-Disposal of Fixed

Assets, and is presented as a reduction to the Fixed Assets account.

Various difficulties can arise in the recording of Depreciation. These include determining the types of assets that can be depreciated, the amounts to be depreciated, the Depreciation method to be applied, and determining the useful economic life of the asset.

In the light of these difficulties, the following requirements must be fulfilled in recording and presenting Depreciation:

1. Assets whose capacity and usefulness have declined must be identified;
2. The amounts to be depreciated must be identified;
3. The useful life and capacity of the asset must be identified.

CHAPTER II

SIGNIFICANCE OF DEPRECIATION

Fixed Assets constitute components of the operating assets of government and are used in the conducting of government operations. Such assets are vulnerable to declines in capacity resulting from usage, and wear and tear. Consequently, government is required to present sufficient information on the value of its Fixed Assets so as to facilitate proper decision-making as regards the management of its assets. Such management includes planning, budgeting, procurement, usage, utilization, exchange, disposal and write-off. For such purposes, the government requires accurate information on the value of its Fixed Assets, and this can be obtained through the application of an informative, systematic and timely Fixed Asset accounting system.

Particularly important in this regard is information on the fair value of an asset, which can be obtained through the application of appropriate Depreciation policies.

Bearing in mind that Fixed Assets have useful lives of quite long duration, they represent one the most

concrete elements in the government’s financial statements as regards the need to maintain a balance between the interests of different generations. Through the application of depreciation, the government is able to estimate in any particular year the value of Fixed Assets that are expected to continue producing benefit in the coming years.

In addition, Depreciation allows the government to obtain information on the economic potential of its assets, which will permit it to budget in a logical and systematic way for maintenance costs and capital expenditure in connection with the replacement or addition of Fixed Assets that have reached the end of their useful lives.

However, the application of a primarily cash-based accounting system has made the recording of Depreciation unpopular. In fact, as stated above, the recognition of depreciation is one of the characteristics of accrual-based accounting, which, as is generally recognized, is capable of providing a more accurate portrait of economic circumstances.

The above description clearly shows the importance of depreciation to the production and presentation of

more informative financial statements. In attempting to reveal the capacity of an asset through the application of depreciation, it will obviously be necessary to identify the condition of the asset beforehand. If difficulties are encountered in identifying the value to be depreciated, or the useful life, or category of the asset, it will not be possible to properly apply depreciation.

Without sufficient information on depreciable fixed assets and their useful life, the amount of depreciation cannot be determined.

Given the difficulties involved in applying depreciation, the provisions set out in Government Accounting Standard No. 07 need to be further elaborated on through the issuance of technical guidelines so as to enable depreciation to be properly applied. Accordingly, the Technical Bulletin has been issued to provide further information regarding treatment of depreciable Fixed Assets so that the value of such assets can be presented more accurately. In order to achieve this goal, the following issues are discussed herein:

a) identifying the value of depreciable assets;

b) Identifying the useful life and capacity of Fixed Assets in accordance with their respective characteristics;

c) Determining the depreciation method;

d) Recording, presentation and disclosure.

CHAPTER III

REQUIREMENTS FOR DEPRECIATION

Depreciation is defined as an adjustment in value that reflects the decline in capacity and benefit of a certain asset. The capacity or benefit of a particular Fixed Asset will decline consistently over the course of time due to its usage in government operations, and accordingly the value of the said asset will also decline.

The principal objective of depreciation is not to accumulate resources for the purpose of repaying debt or replacing the depreciated Fixed Asset. Rather, it is to adjust the value of the asset so as to reflect its fair value. In addition, Depreciation is also intended to reflect the decline in the capacity and benefit of the asset that arises as a result of its usage in government operations.

In applying Depreciation, the following requirements need to be fulfilled:

a. Depreciable assets must be identified:

Fixed Assets need to be identified so that that those that experience a decline in capacity and benefit may

be distinguished from those that do not. Those assets that are subject to declines in their capacity and benefit consist of Equipment and Machinery, Buildings and Properties, Road, Irrigation and Transmission Networks, and so forth; while those categories that do not experience such declines, or which even experience increases in their value, are Land, and Construction in Progress. A Fixed Asset that is subject to a decline in its capacity and benefit will need to have its value adjusted, which is where depreciation comes into play. Conversely, a Fixed Asset that does not experience such a decline will not need to be depreciated.

b. Depreciable Cost

Before applying Depreciation, it is first necessary to identify the value of a Fixed Asset. The Government Accounting Standards adhere to historical value, which means that a Fixed Asset will be valued based on its acquisition value, save in cases where it is impossible for this to be identified. If the value of a Fixed Asset is unknown, then the said asset will be incapable of being depreciated. In addition, acquisition value is one of the determinants in the

identification of book value, which is the acquisition value minus accumulated Depreciation.

Prior to the introduction of the Government Accounting Standards, government entities recorded the value of Fixed Assets using various methods and references. With the introduction of the Government Accounting Standards, the valuation of a Fixed Asset must be carried out in compliance with the guidelines set out in the Technical Bulletin on the Preparation of the Opening Balance Sheet. Fair value, is calculated in accordance with the Government Accounting Standards, provides the basis for the determination of the value of an asset that is to be depreciated.

In the realm of government, a Fixed Asset is acquired for the purpose of being used in government operations and not for sale at the end of its useful life. Furthermore, Depreciation of a Fixed Asset is not intended to balance revenue and expenses. While a Fixed Asset may have a residual value, for the above two reasons the said residual value is ignored for the purposes of calculating Depreciation. As the Fixed Asset will continue to have a value during its useful life, its residual value is not recognized as a matter

of principle. Accordingly, the Acquisition/Historical Value or the fair value of the asset provides the basis for determining depreciable cost.

C. Useful Life and Capacity of Fixed Assets

An asset is categorized as fixed if it produces benefit over the course of more than one year or one accounting period. In measuring benefit, a variety of methods may be employed. Some Fixed Asset can be measured using quantifiable indicators, while others cannot. A motor vehicle or machine, for example, may come with a technical description from the manufacturer setting out the total number of kilometers it is capable of traveling, or the total number of work hours that it is capable of being operated for. However, the benefits expected to accrue from Fixed Assets such as computers, buildings or roads are not so easily quantified. Consequently, in the case of Fixed Assets whose expected benefits are incapable of being specifically calculated, other indicators are employed, such as an estimation of useful life.

In the case of a Fixed Asset whose expected benefit is related to useful life, the calculation of

Depreciation on an individual or group basis will require an estimation of the asset’s useful life. This will depend on the physical characteristics or technology associated with the asset, the way in which the asset is used, and the intensity of its use. For example, because of the physical nature and vulnerability to obsolescence due to technological change, the useful life of computer equipment will be deemed to be shorter than that of a building or property. In another example, the intensity and mode of utilization in the case of a staff bus as compared to a display cabinet will result in the bus being deemed to have a shorter useful life than the display cabinet.

In respect of a Fixed Asset whose expected benefit is related to total potential benefit units, the calculation of Depreciation on an individual or group basis will require an estimation of the total potential benefit units of the asset. The use of such specific indicators will have regard to the physical characteristics or technology associated with the asset, the way in which it is used and the intensity of use. In the case of Equipment and Machinery, for

example, it may be found that one vehicle is required to clock up greater mileage than another. To take the example of the staff bus above, its mileage will likely be greater than that of the unit head’s official vehicle.

Differences in the mode and intensity of use of Fixed Assets need to be identified so as determine the appropriate method of depreciation to be applied. In respect of Fixed Assets whose expected benefit is related to the length of their useful lives, the straight-line or double declining-balance methods of Depreciation may be employed. In such a case, useful life provides the basis for the calculation of Depreciation.

Intensity of use will have a bearing on the choice of the unit-of-production method of depreciation. Using this method, useful life of the asset is expressed in terms of the total capacity or number of units expected to be produced. In turn, the number of units produced is compared with of expected capacity/production of the asset.

It is only after the three requirements described above have been fulfilled that Depreciation can be

properly calculated. Without the fulfillment of the first requirement, the second and third are rendered irrelevant, even though they are essential components in all Depreciation methods. This can be seen from the following formulae for the calculation of Depreciation based on the three methods referred to above:

a) Straight-Line Method

$$\text{Depreciation per period} = \frac{\text{Depreciable Cost}}{\text{Useful Life}}$$

b) Double declining-balance method

Depreciation per period =
(Depreciable Cost – accumulated Depreciation from prior periods) x Depreciation Rate*

*Depreciation Rate is calculated using the following formula:

$$\frac{1}{\text{Useful Life}} \times 100\% \times 2$$

C) Units-of-Production Method

Depreciation per period =
Production in operative period x Depreciation Rate**

** Depreciation rate is calculated based on the following formula:

$$\frac{\text{Depreciable Cost}}{\text{Estimated Total Output}}$$

CHAPTER IV

DEPRECIATION PROCEDURE AND ILLUSTRATIVE JOURNAL ENTRIES

The procedure by which Depreciation is applied is summarized in the following diagram:

a

There now follows a description of each of the steps shown in the above diagram:

1. Identification of Depreciable Fixed Assets

This step is necessary to ensure that the accounting entity does not include assets in the form of Land and Construction in Progress as depreciable Fixed Assets. The measures that must be gone through are as follows:

(1) A list of the Fixed Asset presented in the Balance Sheet should be obtained;

(2) It needs to be ascertained whether the Balance Sheet contains Land and Construction in Process accounts;

(3) If the Balance Sheet does contain Land and Construction in Progress accounts, the assets

included in these accounts must be excluded from the list of depreciable Fixed Assets.

2. Grouping of Assets

a. Group Assets

Depreciation may be applied to Fixed Assets on an individual basis. In addition, it may also be simultaneously applied to a group of assets. This will obviously require an understanding of how assets are grouped. If an asset that should be depreciated as part of a group is depreciated on an individual basis, this will give rise to the following problems:

(1) Depreciation is the recognition of the consumption of the benefit produced by an asset, or obsolescence or damage caused by the passage of time or wear and tear. Technically speaking, some assets can only be used in tandem with other assets, while others can be used individually. If an asset can only be used as part of a group but is deemed as being using individually, this will result in the definition of benefit consumption not being complied with.

(2) In a case where the first problem arises, the recognition of the Depreciation will not be in

line with benefit. For example, a teak guest chair and a steel, glass-topped guest table are purchased as part of a set. In such a situation, the two should be treated as assets that only produce benefit as a group. While the useful lives of the two assets on an individual basis my be different as the metal, glass-topped table will be more vulnerable to rust and breakage. If they are not grouped together then this will result in different useful lives for the two assets, which in turn will produce two different figures for depreciation which if added together will not necessarily be the same as when the two assets are treated as a group.

In the light of the above problems, the measures to be undertaken as part of the grouping of assets are as follows:

(1) A list of all Fixed Assets needs to be obtained;

(2) Those assets which should be grouped together for Depreciation purposes need to be identified based on the following criteria:

i. The assets were acquired at the same time and have the same useful life;

ii. The benefit produced by one asset is technically speaking highly dependent on the other (such as in the case of healthcare equipment like an X-ray camera and X-ray film printer);

iii. The assets were purchased as a set and the purchase price represented the entire cost of the set (for example, a digital printer, computer and software).

iv. Even in cases where benefit is not overly dependent on another asset, assets may be grouped together for ease and efficiency of administration due to the close technical relationship and the context of their use (such as in the case of surgical equipment).

(3) Records of the acquisition/historic value of all assets in a group should be obtained.

(4) A list of the assets in each group should be drawn up, along with their original values.

b. Individual Assets

In the case of assets that do not satisfy the criteria set out in item (2) above, for example Buildings and

Properties, the acquisition value of each asset should be obtained and a list of each asset and its original value prepared.

3. Determining Fair Value of a Fixed Asset

The most fundamental question associated with Depreciation is determining the value of a Fixed Asset, which is a precondition to determining depreciable cost. However, as was found during the preparation of the Opening Balance Sheet, the determination of a Fixed Asset’s value can be quite a complex matter due to the following problems:

(1) Proof of ownership/title to the Fixed Asset is unclear so that the question as to whether it should be recognized as an asset of the accounting entity also becomes unclear.

(2) Documents such as the deed of sale and purchase, purchase receipt, or other records that would reveal the value of the asset at the time of acquisition are unavailable or are incomplete. This may arise in a situation where the asset was not acquired by way of purchase, or where

the relevant documents have been lost or destroyed.

(3) The assets covered by point (2) above have yet to valued by a professional appraiser.

4. Determination of Depreciable Cost

As Fixed Assets owned by the government were not acquired for the purpose of sale, but rather to be fully used in accordance with the duties and functions of the government agency in question, residual or salvage value is not recognized. Accordingly, the value of each Fixed Asset, whether individual or part of a group, is recognized directly based on its depreciable cost.

5. Determining the Method of Depreciation

The amount by which an asset depreciates in each period is determined using one of a number of Depreciation methods. Government Accounting Standard No. 07 sets out three Depreciation methods that may be employed. The differences between the three methods are normally associated with the complexity of the calculations involved. In this regard, the most popular is the straight-line method as it is regarded

as being the most straightforward, while the most complex is the declining balance method.

Aside from the question of complexity, the choice of a Depreciation method is also related to the characteristics of the asset, together with the mode and intensity of its use. If a benefit unit is specific and quantifiable, then Depreciation may be calculated more logically and proportionately using the units-of-production method. Should the intensity of use decline over time, then Depreciation can be more logically and proportionately calculated using the double declining-balance method. However, if useful life is incapable of being quantified, or even where it can be quantified but it is desired to keep things as straightforward as possible, then the most logical and proportional calculation of Depreciation can be achieved using the straight-line method.

In the light of the above description, the steps involved in determining the appropriate depreciation method are as follows:

(1) Identify the physical characteristics of the Fixed Asset, its specifications, the

measurability of its total potential benefit units, and the mode and intensity of its use.

(2) If the Fixed Asset allows the use of total potential benefit units (estimated output) and its total utilization per period is specific and quantifiable, then the units-of-production method should be employed.

(3) Should it be determined that the units-of-production method should be employed, then total output (normal potential benefit capacity) will need to be estimated. This can be done using data from the manufacturer or by competent estimators.

(4) Should a Fixed Asset not permit an estimation of total output or potential benefit, or its total benefit per period is not specific or quantifiable, but it is clear that the intensity of its use was greater at the start of its useful life, then the double declining-balance method of Depreciation should be used.

(5) Should a Fixed Asset not permit an estimation of total output or potential benefit, or its total benefit per period is not specific or

quantifiable, and the mode and intensity of its use over the course of its useful life is unclear, or should there be a desire to apply an easy-to-use Depreciation method, then the straight-line method should be employed.

(6) Should the straight-line or double declining-balance methods be employed, the useful life of the asset will need to be determined;

(7) Should the total output or benefit of an asset be known, as in the case of paragraph (3) above, or the decline in the intensity of the assets use be identifiable, as in the case of paragraph (4) above, the straight-line method may be used for the sake of practicality;

(8) The Depreciation policies to be applied should be stated in the Accounting Policies.

(9) The said Accounting Policies shall at a minimum cover the following matters:

- The identification of depreciable assets
- The Depreciation method to be employed
- Useful life and Depreciation rate

6. Calculating and Recording Depreciation

The steps to be taken in calculating and recording Depreciation are as follows:

(1) The amount of Depreciation for the current year is identified using the formula applicable to the chosen Depreciation method;

(2) The calculation and recording of Fixed Asset Depreciation should be carried out consistently up to the end of the assets useful life by debiting to Fund Equity- Disposal of Fixed Assets account and crediting the Accumulated Depreciation account.

(3) A Depreciation List should be prepared so as to facilitate the calculation of Depreciation amounts in subsequent years.

Illustrative Calculation and Recording of Fixed Asset Depreciation by Depreciation Method

1. Straight-line method

Using the straight-line method, the Depreciation of an asset is carried out by charging a portion of the original cost in equal increments over the useful life

of the asset. The depreciation percentage used in this method determines the depreciable value so as obtain the annual amount of Depreciation.

Example:

a. The following information appears on a Goods Inventory Card:

   - The value of a photocopier according to the sub-ledger, which accords with the Goods Inventory Card, is stated at Rp 10,000,000.

   - The photocopier is being depreciated for the first time.

b. The photocopier is in good condition. According to the Accounting Policies on the useful life of equipment and machinery, the photocopier has a useful life of 5 years and will be depreciated using the straight-line method.

Based on the above information, the calculation and recording of Depreciation from the first to fifth years will be as follows:

a. The depreciable cost of the Fixed Asset is Rp 10,000,000.

b. Depreciation in the first year is Rp 10,000,000 : 5 = Rp 2,000,000.

c. Based on the above information, the journal entry for first-year Depreciation will be as follows:

Equity Fund-Disposal of Fixed Assets	Rp 2,000,000	
Accumulated Depreciation		Rp 2,000,000

d. The journal entries for the second to fifth years will be as follows:

Equity Fund-Disposal of Fixed Assets	Rp 2,000,000	
Accumulated Depreciation		Rp 2,000,000

2. Double declining-balance method

Using the double declining-balance method, a Fixed Asset is depreciated by charging a portion of the original cost in equal increments over the useful life

of the asset, as in the case of the straight-line method. However, the Depreciation percentage is twice that of the Depreciation percentage used in the straight-line method. The Depreciation percentage is then multiplied by book value.

Example:

a. The following information appears on a Goods Inventory Card:

   - The value of a photocopier according to the sub-ledger, which accords with the Goods Inventory Card, is stated at Rp 10,000,000.
   - The photocopier is being depreciated for the first time.

b. The photocopier is in good condition.

c. According to the Accounting Policies on the useful life of equipment and machinery, the photocopier has a useful life of 5 years and will be depreciated using the double declining-balance method.

Based on the above information, the calculation and recording of Depreciation from the first to fifth years will be as follows:

1. The depreciable cost of the Fixed Asset is Rp 10,000,000.

2. The Depreciation rate is calculated using the following formula:

$$\frac{1}{\text{Useful life}} \times 100\% \times 2$$

If the useful life is 5 years, then the Depreciation rate will be:

$$\frac{1}{5} \times 100\% \times 2 = 40\%$$

3. Depreciation from the first to fifth years will be as follows:

Depreciation using the double declining-balance method

Year	Book Value	Percentage Depreciation	Depreciation Per Annum	Accumulated Depreciation
		Rounding up/Adjustment		

In this case, the journal entries recording Depreciation will be as follows:

1) First-year Depreciation

Equity Fund-Disposal of Fixed Assets	Rp 4,000,000	
Accumulated Depreciation		Rp 4,000,000

2) Second-year Depreciation:

Equity Fund-Disposal of Fixed Assets	Rp 2,400,000	
Accumulated Depreciation		Rp 2,400,000

3) Third-year Depreciation:

Equity Fund-Disposal of Fixed Assets	Rp 1,440,000	

Accumulated Depreciation		Rp 1,440,000

4) Fourth-year Depreciation:

Equity Fund-Disposal of Fixed Assets	Rp 864,000	
Accumulated Depreciation		Rp 864,000

5) Depreciation in the fifth year will be adjusted so as to produce Accumulated Depreciation that equals the initial value/depreciable cost of the asset.

Equity Fund-Disposal of Fixed Assets	Rp 1,296,000	
Accumulated Depreciation		Rp 1,296,000

3. Units-of-production method

In the case of the units-of-production method, Depreciation is calculated based on estimated output of the Fixed Asset in question. The Depreciation rate is calculated as a comparison between the depreciable cost and estimated output at normal capacity.

Example:

a. The following information appears on a Goods Inventory Card:

   - The value of a photocopier according to the sub-ledger, which accords with the Goods Inventory Card, is stated at Rp 12,000,000.

   - The photocopier is being depreciated for the first time.

b. The photocopier is in good condition. According to the relevant Accounting Policies, the units-of-production method should be employed to calculate Depreciation.

c. The normal production capacity of the photocopier is 60,000 copies.

d. The production of the photocopier as of the fifth year is 60,000 copies.

e. Depreciation rate: Depreciable cost divided by estimated output of 12,000,000.00/60,000 = Rp 200 per copy.

f. Total annual production over the course of the five years and amount of Depreciation per year are as follows:

Year	Production Per Annum (Sheets)	Depreciation Rate	Amount of Depreciation
Total			

The journal entries recording Depreciation will be as follows:

1) First-year Depreciation:

Equity Fund-Disposal of Fixed Assets	Rp 3,200,000	
Accumulated Depreciation		Rp 3,200,000

2) Second-year Depreciation:

Equity Fund-Disposal of Fixed Assets	Rp 1,840,000	
Accumulated Depreciation		Rp 1,840,000

3) Third-year Depreciation:

Equity Fund-Disposal of Fixed Assets	Rp 2,320,000	
Accumulated Depreciation		Rp 2,320,000

4) Fourth-year Depreciation

Equity Fund-Disposal of Fixed Assets	Rp 2,140,000	
Accumulated Depreciation		Rp 2,140,000

5) Fifth-year Depreciation:

Equity Fund- Disposal of Fixed Assets	Rp 2,500,000	
Accumulated Depreciation		Rp 2,500,000

7. Presentation of Depreciation

The amount of Depreciation for each year is recorded in the Balance Sheet by increasing the value of Accumulated Depreciation of the Fixed Assets account and reducing the value of Equity Fund- Disposal of Fixed Assets. The Balance Sheet presents Accumulated Depreciation together with the acquisition/historical cost of the Fixed Asset so that the book value of the asset may be ascertained, thereby providing a picture of the potential benefit that can still be expected to accrue from the asset.

There now follows an illustration of how the Acquisition/Historical Value, Accumulated Depreciation and the Book Value of Fixed Assets are presented in the Balance Sheet:

Land 120,000,000,000

Equipment and Machinery	4,000,000,000	
Buildings and Properties	35,000,000,000	
Road, Irrigation and Transmission Networks	12,758,500,000	
Other Fixed Assets	1,656,000,000	
Accumulated Depreciation	(2,430,000,000)	
Book Value		50,984,500,000
Construction in Progress		4,300,000,000
Total		175,284,500,000

Although Fixed Assets consists of a variety of assets that all have different Acquisition/Historical Values, Depreciation is presented in only one account – Accumulated Depreciation. The Acquisition/Historical Value of a Fixed Asset, the amount of Depreciation, and Accumulated Depreciation, and Book Value by Fixed Asset type are presented in the Notes to the Financial Statements.

From the illustrative Balance Sheet entry shown above, it will be seen that Land and Construction in Progress

are not depreciated. Besides these two types of Fixed Asset, all other Fixed Assets are depreciated, with Accumulated Depreciation amounting to Rp 2,430,000,000 and Book Value standing at Rp 50,984,500,000.

8. Disclosure of Depreciation in the Notes to the Financial Statements

Paragraph 79 of Government Accounting Standard 07 requires the following information on depreciation to be disclosed in the financial statements:

(1) The depreciation value;

(2) The depreciation method used;

(3) The useful lives or the depreciation rates used;

(4) The gross carrying amount of the asset and the accumulated depreciation at the beginning and end of period.

The above four types of information must be presented in the Balance Sheet and Notes to the Financial Statements. In greater detail, the information that must be disclosed in the Notes to the Financial Statements are as follows:

- Accounting Policies

The Accounting Policies to be described in the Notes to the Financial Statements are those that concern the depreciation method employed and any changes thereto. For example, regarding the determination of depreciation method, the Notes to the Financial Statements may describe the situation as follows:

Photocopiers were depreciated using the units-of-production method. Highways were depreciated using the double declining-balance method. Besides these, all other Fixed Asset were depreciated using the straight-line method.

- List of Assets and their Depreciation

For the purpose of providing full disclosure, the Notes to the Financial Statements may set out the details of the list of assets and their depreciation so as to show Gross Acquisition/Historical Value, Accumulated Depreciation, and the Book Value for each individual asset and group assets. Should notes be provided for each Fixed Asset, the amount of depreciation and Accumulated Depreciation will be taken from the Accumulated Depreciation account. An

illustrative List of Assets and Depreciation is given below:

List of Fixed Assets and Depreciation

		Acquisition Value	Accumulated Depreciation	Book Value
	Land			
	Class I Land with Class I State Houses			
	Land with Government Office Buildings			
	Equipment and Machinery			
	Motorized land transportation equipment			
	Office equipment			
	Household Equipment			
	Communications Equipment			
	Laboratory equipment			
	Computers			
	Computer equipment			
	Buildings and Properties			
	Workplace Buildings			
	Residential Buildings			
	Road, Irrigation and Transmission Networks			
	National Roads			
	Irrigation networks			
	Other Fixed Assets			
	Books/Library Collections			
	Sports Equipment			
	Construction in Progress			
	Total			

CHAPTER V

SPECIFIC ISSUES RELATED TO DEPRECIATION

A. First-Time Depreciation

When recording depreciation of a Fixed Asset for the first time, there is a possibility that significant difficulties may be encountered in determining the useful lives of assets and portions of useful life spans that have already been depreciated as a result of the fact that Fixed Assets of the same type will have been acquired in different years. For example, if depreciation is to be applied for the first time at the end of 2008, there is a significant likelihood that some Equipment and Machinery assets, for example, vehicles, were acquired in the years prior to 2008, while others will have been acquired in 2008.

If in general such assets are determined as having useful lives of 5 years and the straight-line method of depreciation is employed, then at the end of 2008 there will be differences in the remaining useful life spans of the assets and the portions of useful life spans that have already been depreciated, as show below:

No.	Time of Asset Acquisition	Residual Useful Life Per 31 December 2008	Useful Life Expended and Basis for Depreciation Per 31 December 2008
1	Start 2003 and Prior to 2003	0 years	5 years
2	Start 2004	0 years	5 years
3	Start 2005	1 year	4 years
4	Start 2006	2 years	3 years
5	Start 2007	3 years	2 years
6	Start 2008	4 years	1 years

Given the differences in residual useful life spans as per 31 December 2008, and the portions of life span that have been expended and must for the basis for depreciation as per 31 December 2008, as shown above, depreciation as per 31 December 2008 will be applied proportionately to the portion of useful life span that has been expended, which must form the basis for depreciation as per 31 December 2008. Thus, an asset that was acquired in 2005, for example, will not be depreciated by one year, as happens in the case of assets acquired in 2008.

An illustrative calculation of first-time depreciation is presented below:

Local Government X prepared its Opening Balance Sheet on 31 December 2005. In 2008, Local Government X

applied depreciation to Fixed Assets for the first time. One of the Local Government's asset types is vehicles, as shown below:

Year of Acquisition	Value on the Balance Sheet as per 31 December 2008 (prior to depreciation)
2003	90,000,000
2005	125,000,000
2006	150,000,000
2007	160,000,000
2008	180,000,000

The useful lives of vehicles has been set at 5 years, and the calculation of depreciation of the said assets for the first time will be grouped into 3 classes, namely:

1. Assts acquired in the first year of depreciation.

These assets are presented at Acquisition/Historical Value. The calculation of depreciation for 2008 (1 year) will be as follows:

Acquisition Year (Start of Year)	Value on Balance Sheet (prior to depreciation)	Useful Life	Depreciation
1	2	3	4 = (20% x 2)
2008	180,000,000	5	36,000,000

In this case, the journal entry will be as follows:

Equity Fund- Disposal of Fixed Assets	Rp 36,000,000	
Accumulated Depreciation		Rp 36,000,000

2. Assets Acquired after the Opening Balance Sheet up to one year prior to application of depreciation

These assets are presented at Acquisition/Historical Value. Depreciation consists of depreciation in the current year and corrections for depreciation in the previous years, as shown below:

Acquisition Year (start of year)	Value on Balance Sheet (before depreciation)	Portion of useful life already passed as of January 2008	Annual Depreciation	Depreciation in 2008 (1st Year)		
				Corrections for previous years	2008	Total
1	2	3	4(20%X2)	5=3x4	6=4	7=5+6
2005	125.000.000	3	25.000.000	75.000.000	25.000.000	100.000.000
2006	150.000.000	2	30.000.000	60.000.000	30.000.000	90.000.000
2007	160.000.000	1	32.000.000	32.000.000	32.000.000	64.000.000
Total	435.000.000			167.000.000	87.000.000	254.000.000

In this case, the journal entry will be as follows:

Equity Fund- Disposal of Fixed Assets	Rp254,000,000	
Accumulated Depreciation		Rp254,000,000

3. Assets acquired prior to Opening Balance Sheet

Based on Technical Bulletin No. 01, assets acquired more than 1 year prior to the date of the Opening Balance Sheet will be presented at fair value as of the time of preparation of the Opening Balance Sheet.

In determining depreciation, the residual useful life of the asset at the time of the Opening Balance Sheet must be determined. Then, the time difference between the Opening Balance Sheet and the application of depreciation is identified.

For example, assets acquired by Local Government X in 2003 are presented at the fair values in the Opening Balance Sheet prepared in 2005. The assets are valued at Rp 90,000,000, and their residual useful lives have been set at 3 years. In this case, depreciation will be calculated as follows:

Acquisition Year (start of year)	Value	Remaining useful life per date of Opening Balance Sheet 1	Useful Life between first Balance Sheet and 1 January 2008	Annual Depreciation	Depreciation in 2008 (1st Year)		
					Corrections for previous years	2008	Total
1	2	3	4	5 (30%x2)	6=4x5	7=5	8=5+6
2005	90.000.000	3	2	30.000.000	60.000.000	90.000.000	90.000.000

while the journal entry for 2008 will be as shown below:

Equity Fund- Disposal of Fixed Assets	Rp 90,000,000	
Accumulated Depreciation		Rp 90,000,000

B. Use of Fully Depreciated Fixed Assets

Although an asset may be fully depreciated so that its Book Value stands at Rp 0, it is technically possible that it may still be used. Should this be the case, the asset in question will be presented at Acquisition/Historical Value together wit Accumulated Depreciation, and will continue to be recorded in the relevant Fixed Asset group, with an explanation being provided in the Notes to the Financial Statements. A fully depreciated Fixed Asset may be written-off if permission for this has been obtained from an authorized officer.

C. Write-off of Fixed Assets

Under the provisions of Government Regulation No. 6 of 2006, a Fixed Asset owned by the Central Government may only be written-off if approval has been obtained from the Minister of Finance. In the case of Local

Governments, under Minister of Home Affairs Regulation No. 17 of 2007, a Fixed Asset may only be written-off by the Local Government Chief Executive/Head.

For example, if a Buildings and Properties asset with an Acquisition/Historical Value of Rp 4,200,000,000 has been fully depreciated and permission for its write-off has been obtained from the Minister of Finance or Local Government Chief Executive/Head, as the case may be, then the writing-off journal entry will be as follows:

Accumulated Depreciation	Rp 4,200,000,000	
Fixed Assets – Buildings and Properties		Rp 4,200,000,000

Note: Equity Fund- Disposal of Fixed Assets has already been debited at the time of depreciation.

D. Sale of Written-off Fixed Assets

Should it be planned to put a Fixed Asset that has been written-off up for auction, the planned sale must be stated in the budget and its realization. The proceeds of the sale will be recorded as revenue. For example, a fully depreciated Buildings and Properties asset is sold for Rp 30,000,000, where the asset in

question had an acquisition/historical and fully depreciated value of Rp 350,000,000.

The revenue journal entry in this case will be as follows:

Cash	Rp 30,000,000	
Miscellaneous Revenue		Rp 30,000,000

The reversing journal entry for Asset and Accumulated Depreciation will appear as follows:

Accumulated Depreciation – Buildings and Properties	Rp 350,000,000	
Fixed Assets – Buildings and Properties		Rp 350,000,000

E. Asset Exchanges

Fixed Assets may be exchanged or swapped by government units. For example, a Fixed Asset may be capable of being put to better use by a government unit other than the one that currently operates it. The one that currently operates it may incur benefit from the exchange. Exchange of fixed assets between government units should follow the relevant regulation.

Asset exchanges may involve both assets of the same type and assets of differing types. Examples of exchanges of assets of the same type include exchanges of motor vehicles for other motor vehicles, buildings for other buildings, and so forth. Meanwhile, examples of exchanges of assets of differing types would be exchanges of computers for vehicles, buildings for land, etc.

Exchanges of assets of dissimilar types are governed by paragraph 43 of Government Accounting Standard No. 07, which provides that “the cost of such assets will be measured by the fair value of the asset received, which is equivalent to the carrying value of the exchanged assets adjusted with the amount of transferred cash or cash equivalent.” This requires the identification of the Acquisition/Historical Value of the released asset and the amount of Accumulated Depreciation. For example, a vehicle has an Acquisition/Historical Value of Rp 70,000,000 and a useful life of 7 years. The vehicle has been depreciated over 5 years using the straight-line method. The Book Value of the asset now stands at Rp 20,000,000. The said asset is exchanged for a

building. If the exchange is accompanied by a cash payment of Rp 2,500,000, the value of the Fixed Asset acquired will be Rp 22,500,000. The potential benefit of the asset will be recalculated for the purpose of calculating depreciation in the following year.

Meanwhile, exchanges of assets of the same type are governed by article 44 of Government Accounting Standard No. 07, which provides that no gain or loss shall be recognized on such transactions. Accordingly, the value of the Fixed Asset that is acquired will be recorded based on the carrying value of released asset. However, it will still be necessary to identify the asset’s useful life for the purpose of calculating depreciation.

F. Improvements to Fixed Assets that Increase Useful Life or Capacity

Improvements made to a Fixed Asset may increase the useful life or capacity of the asset. Expenditure incurred in making such improvements is treated as capital expenditure, and will affect the depreciable value, estimated output and useful life of the asset.

According to paragraph 50 of Government Accounting Standard No. 07, expenditure such as this should be added to the carrying value of the asset. This means that the capital expenditure incurred is added to the Book Value of the Fixed Asset. The addition of capital expenditure to the Book Value of the asset will result in a new value that needs to be depreciated over the remaining useful life of the asset. For example, an asset that has an Acquisition/Historical Value of Rp 50,000,000 and a useful life of 10 years has been depreciated over the course of 6 years. At the start of the seventh year, improvements are made to the asset at a cost of Rp 12,200,000 (capital expenditure). This expenditure increases the useful life of the asset by 3 years. Accumulated Depreciation as per the sixth year amounted to Rp 30,000,000 so that the Book Value of the asset stood at Rp 20,000,000. In this case, the expenditure of Rp 12,200,000 on improving the asset is added to the asset’s Book Value so that the new depreciable value will be Rp 32,200,000, to be depreciated over 7 years. Thus, the annual depreciation amount over the course of the 7 years will be Rp 4,600,000.

Should the improvements that are made not extend the useful life of the asset, but rather increase its efficiency and capacity, the residual useful life span used for calculating annual depreciation will be four years. Accordingly, annual depreciation over the course of these 4 years will be Rp 8,050,000.

G. Depreciation of Group Assets

Fixed Asset vary in terms of form and value. Some types of Fixed Assets have very high values, such as properties in the form of official residences and office buildings. National and provincial highways are also very valuable. Meanwhile, other Fixed Assets may be numerous but have relatively small values, such as small machines like calculators and other office equipment.

Calculating the depreciation on Fixed Assets whose value per unit is very high can be done by calculating the depreciation for each type of Fixed Asset concerned. However, calculating the depreciation for each Fixed Asset in a class that is numerous and relatively small in value would be very time consuming, and even, the cost incurred could well end up being more than the benefit obtained. Accordingly,

a more practical means is needed to calculate the depreciation of Fixed Assets with relatively small values.

The calculation of depreciation in the case of assets with relatively small values can be carried out by grouping the said assets and then calculating the amount of depreciation for the entire group. The assets in such an asset group must have the same attributes, for example, the same useful life spans. Should such similarity of attributes be present, depreciation will be calculated by applying depreciation percentage using the straight-line method in respect of the average value of the Fixed Assets in question. For example, the Opening Balance for office equipment at the start of the year is Rp 200,000,000, and the closing balance at the end of the year Rp 300,000,000. Thus, the average value of office equipment is Rp 250,000. Given that all the assets have the same useful lives, for example, 4 years, the percentage depreciation will be 25%. Accordingly, the amount of depreciation for the operative year will be Rp 62,500,000.

H. Calculating Depreciation of Fixed Assets acquired Mid-Year

Fixed Assets are acquired at particular times during the year. Some assets are acquired at the beginning of the year, some in mid-year and some at the end of the year. This gives rise to difficulties in calculating depreciation, such as which Fixed Assets acquired during the depreciation year should be depreciated for the full year? Or whether depreciation should be calculated based on the actual time of acquisition of the asset? Or whether the depreciation should be rounded up by month or semester?

These issues arise particularly in the case of assets that are to be depreciated based on useful life. Acquisition in mid-year will have a major impact on depreciation during the year of acquisition and the last year of useful life. This problem does not arise however in the case of an asset that is depreciated based on activity, such as a Fixed Asset depreciated using the units-of-production method. In the case depreciation is determined based on total output, it is irrelevant whether such output is produced at the beginning of the year, in the middle of the year or at

the end of the year. Rather, the amount of depreciation will be calculated based on output cut-off.

In determining the time that will be used as the basis for calculating depreciation of an asset acquired in mid-year, there are a number of approaches that may be employed, namely:

1. Day of Use:

In this approach, an actual day is used to mark the commencement of depreciation. For example, if an asset was obtained on 1 October 20x1, the depreciation charge for that year will be calculated based on a period of 92 days, counting from 1 October to 31 December.

2. Month of Use

In this approach, a particular month is used to mark the commencement of depreciation. Referring to example 1. above, depreciation in the first year will be calculated based on a period of three months – October, November and December. Even if the date on which the asset is acquired is 30 October,

depreciation will continue to be calculated based on a period of three months.

3. Semestrial Basis

This approach uses the two halves of the year as the basis for calculating the amount of depreciation. If an asset is obtained in the first half of the year, then depreciation will be calculated for the full year. However, if the asset is acquired in the second half, the asset will only be depreciated over a period of six months.

4. Annual Basis

An asset may also be depreciated for the full year even though it was only obtained one or two months, or even two days, prior to the end of the period. This is known as the Annual-Basis Approach.

A government entity that is to acquire an asset in mid-year may select any of the above approaches to determine the amount of depreciation. However, whatever the approach is, the approach selected should be stated in the Accounting Policies.

I. Changes in Estimates and Implications Thereof

a) Asset Useful Life is Longer than Estimated

It may be the case that an assets useful life turns out to be longer than estimated for the purposes of depreciation. In such cases, the asset is still capable of being used after its estimated useful life has come to an end and Accumulated Depreciation is equal to Acquisition/Historical Value. This shows that the Fixed Asset in question still has a fair value.

As there is no more depreciable cost, the asset can no longer be depreciated. Bearing in mind that residual value is not recognized, the asset’s Acquisition/Historical Value and Accumulated Depreciation will continue to be recorded in the Balance Sheet.

b) Stopping Usage

An asset is depreciated for as long as it is capable of providing benefit or of production. Sometimes, however, an asset for some reason may not be capable of being used. As it is not being used, the asset in question should no longer be depreciated and may be transferred to Miscellaneous Assets if it is no longer capable of being used on a permanent basis. However,

if it is incapable of being used on a temporary basis, then it will not be transferred to Miscellaneous Assets.

If the units-of-production method of depreciation is used, then depreciation will automatically stop being calculated. However, if the straight-line or double declining-balance methods are employed, depreciation will continue to be calculated. This is because the asset will continue to lose value even though it is not being used.


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