TECHNICAL BULLETIN OF GOVERNMENT ACCOUNTING STANDARDS

TECHNICAL BULLETIN 04
PRESENTATION AND DISCLOSURE OF GOVERNMENT EXPENDITURE

THE GOVERNMENT ACCOUNTING STANDARDS COMMITTEE (KSAP)

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The Government Accounting Standards Committee (KSAP)

In accordance with article 3 of Government Regulation No. 24 of 2005 on the Government Accounting Standards, which provides:

1. That the Statement of Government Accounting Standards (PSAP) shall be complemented by Technical Bulletins that form an integral and inseparable part of the Government Accounting Standards;
2. That the said Technical Bulletins shall be prepared and adopted by the KSAP;

the KSAP hereby issues Technical Bulletin No. 04 on the presentation and disclosure of government expenditure.

Jakarta, 29 December 2006

The Government Accounting Standards Committee

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Technical Bulletin on the Presentation and Disclosure of Government Expenditure

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CHAPTER I

BACKGROUND

The principles of the planning and budgeting system regulate the rights of government in lawfully raising revenues and the government obligation in allocating expenditures for the purpose of achieving national objectives. The planning and budgeting system has three principal goals, namely, to ensure macro fiscal stability, to ensure the allocation of resources in line with agreed priorities, and to ensure the effective and efficient allocation and use of budgetary funds. In line with these goals and in accordance with paragraphs 19-21 of Government Accounting Standard No. 02 on Budget Realization Statements, governmental accounting in Indonesia adheres to the budgetary accounting system. This means that the classification of revenues and expenditure in Central/Local Government financial statements must have already been determined at the planning and budgeting stages. Accordingly, so as to ensure that government financial statements meet their objectives, namely, to be informative and to facilitate efforts to improve performance, the quality of services and efficiency in the use of resources, it must be ensured that the classification of revenues and expenditure at the planning and budgeting stage is in accordance with the revenue and expenditure classifications in Central/Local Government financial statements.

In the particular case of expenditure classifications, paragraph 18 of Government Accounting Standard No. 02 states a reporting entity is required to present expenditure classifications by expenditure type in its Budget Realization Statement, expenditure classifications by organizational unit in the Budget Realization Statement or in the Notes to the Financial Statements, and expenditure classifications by function in the Notes to the Financial Statements. Consequently, one of the difficulties that may arise for a reporting entity at the central or local levels is ensuring that planning and budgeting are in accordance with the formats of the financial statements. A further, and no less significant, issue concerns how expenditure should be recognized, measured and disclosed.

To date there continues to be differences of opinion between finance officials at the central and local levels as to how the Government Accounting Standards should be applied in respect of expenditure categories, with the classifications used in budget preparation being different from those that appear in the financial statements. In addition, there are various expenditure classifications provided for in the prevailing legislation and regulations, which shall be described in Chapter III.

For the purpose of bringing about a uniformity of perception and understanding as regards expenditure classifications and so as to provide guidelines for the proper application of the Government Accounting Standards and the presentation of Budget Realization Statements at both the central and local levels, the Government Accounting Standards Committee (KSAP) has deemed it necessary to issue this Technical Bulletin. It is expected that the guidelines contained herein will permit the proper identification of expenditure classifications, thereby facilitating accurate presentation and disclosure in government financial statements so as to improve the overall quality of governmental planning, budgeting, and financial reporting.

This Technical Bulletin should be read and applied in the context of the Conceptual Framework and Statement of Government Accounting Standards.

CHAPTER II

SIGNIFICANCE OF EXPENDITURE CLASSIFICATION – THEORETICAL FRAMEWORK

In their book “Managing Government Expenditure” (1991), Salvatore Schiavo Campo and Daniel Tommasi highlighted the importance of expenditure classification in:

- Formulating policies and identifying sectoral resource allocations;
- Identifying the level of government activity through an evaluation of government performance;
- Developing accountability by assessing the level of compliance with the authorizations provided by the legislature.

In line with the above, a system of expenditure classification is intended to provide a basic framework for both decision-making and accountability, and consequently expenditure needs to be classified for a number of different objectives, such as:

- For the preparation of reports that accord with the needs of diverse users (for example, decision-makers, the general public, the heads of Local Government Line Units, the Director General of Budgeting, financial management units, and so forth);

- For budgetary administration and accounting; and
- For the presentation of Budget Realization Statements.

Under the State Finances Act 2003 (No. 17 of 2003), expenditure is grouped by organization, function and economic classifications so as to facilitate budgeting and reporting. Consequently, a classification system that is capable of satisfying budgeting and reporting functions must be formulated as follows:

- Classification by function for the purposes of historical analysis and policy formulation;
- Classification by organization for the purposes of accountability;
- Classification by funding for the purposes of financing sources;
- Classification by economic category for the purposes of statistical and object analysis (types of

expenditure), compliance, control and economic analysis; and

- Classification by programs and activities for the purposes of information provision and control over the achievement of targets.

Referring to various above classifications, classification by type of expenditure is very essential to budgetary control and monitoring management.

CHAPTER III

LEGISLATIVE CLASSIFICATIONS OF EXPENDITURE

A. Classification under the State Financial Management Legislation

Article 14(2) and article 19(2) of the State Finances Act 2003 (No. 17 of 2003) provide that the work plans and budgets of State Ministries/Institutions (at the Central Government level), and Working Units (Local Government Line Units) are to be prepared based on performance to be attained. This approach requires State Ministries/Institutions and Local Government Line Units to assess their performances based on their programs/activities. Accordingly, for the purposes of assessing performance, article 15(5) and article 20(5) of the State Finances Act no 17/2003 provides that a Central/Local Government Budget that has been approved by the Legislature will be detailed based on organizational unit, function, program, activity and type of expenditure.

This requirement was reinforced by articles 14 and 15 of the State Treasury Act 2004 (No. 1 of 2004), which provides that a budget execution document needs to provide details of targets, functions, programs, activities, budget allocations for achieving the said targets, and plans for the drawing down of funds by each Line Unit, and the expected revenues. Subsequently, Government Regulation No. 20 of 2004 (on Central Government Work Plans), and Government Regulation No. 21 of 2004 (on the Preparation of State Ministries/Institution Work Plans and Budgets) described expenditure classifications in greater detail as an elaboration of the general principles contained in the State Finances Act 2003.

B. Classification under Government Regulation No. 24 of 2005 on the Government Accounting Standards

Paragraph 34 of Government Accounting Standard No. 02 states that expenditures shall be classified based on economic classifications, organizations and functions, which together constitute the minimum breakdown that must be presented by the reporting entity. Article 39 of Government Accounting Standard 02 then describes economic classifications (types of expenditure) as Operating Expenditure, Capital Expenditure and Other/Unexpected Expenditure. Operating Expenditure consists of expenditure on the part of the Central/Local Government Treasury for the purpose of carrying out government operations, while Capital Expenditure consists of spending on the purchase and/or procurement of capital goods. Operating Expenditure is further subdivided into Employee, Procurement, Interest, Subsidy, Grant, Social Assistance and Other/Unexpected Expenditure.

In the case of expenditure classifications by function, these are subdivided into Public Services, Defense, Public Order and Security, Economy, Environmental Protection, Housing and Residential, Health, Tourism and Culture, Religion, Education, and Social Protection. These classifications adhere to the pattern set out in Government Financial Statistics (GFS), a publication of the International Monetary Fund (IMF).

C. Classifications under Government Regulation No. 58 of 2005 on Local Government Financial Management

Article 27 of Government Regulation No. 58 of 2005 sets out the following pattern of expenditure classification:

1. Local Government expenditures are classified by organization, function, program, activity, and expenditure type;

2. Classification of expenditures by organization is so adjusted as to take account of the organizational structure of individual Local Governments;

3. Classification by function consists of: (a) classification based on Local Government managerial operations; and (b) classification based on state financial management functions for the purpose of ensuring integration and harmonization in the management of the state finances.

D. Classifications under Minister of Home Affairs Regulation No. 13 of 2006 (on Guidelines for Local Government Financial Management)

The classifications set out in Government Regulation No. 58 of 2005 are further elaborated in Minister of Home Affairs Regulation No. 13 of 2006 as:

1. Expenditure classification in the context of government operations that come within the jurisdiction of provinces/districts/municipalities, consisting of expenditures on mandatory operations and expenditures on optional operations.

2. Expenditure classification based on functions, which is used for the purpose of ensuring integration and harmonization with the management of the State Finances as stipulated in the Government Regulation No. 24 of 2005 on the Government Accounting Standards. Under this classification, expenditure consists of expenditure on Public Services, Public Order and Security, the Economy, Environmental Protection, Housing and Public Facilities, Health, Tourism and Culture, Education and Social Protection. Unlike Government Regulation No. 24 of 2005, Minister of Home Affairs Regulation No. 13 of 2006 does not include the “Defense” and “Religion” functions as both of these are reserved to the Central Government and not decentralized to local governments.

3. Classification by expenditure group, consisting of direct and indirect expenditure. Whether expenditures are categorized as “direct” or “indirect” depends on whether or not they have direct links with particular programs/activities. Expenditures that are directly linked to a program/activity (for example, expenditures on honorariums, procurement of goods, capital expenditure) are classified as direct

expenditures, while those that are not directly linked to a particular program/activity (for example, monthly employee salaries and allowances, interest costs, donations, financial assistance expenditure, grants, and so forth) are classified as indirect expenditures.

CHAPTER IV

EXPENDITURE CLASSIFICATION BY FUNCTION

The classification of expenditure by function is used as the basis for preparing performance-based budgets. This is intended to provide maximum benefit in the use of limited resources. Consequently, the programs and activities of State Ministries/Institutions and Local Government Line Units must be geared towards producing the results and output specified in the government work plan. As a logical consequence, this entails improving the effectiveness and efficiency of program implementation. Thus, policies, programs, activities, and sub-activities must all form links in a chain that constitutes a conceptual whole. The relationship between functions, programs, activities and sub-activities is as follows:

1. “Function” means the realization of the duties of government in a particular field for the purpose of achieving national development objectives. A sub-function represents the further elaboration of a function. Functions are differentiated into 11 (eleven) principal functions, and 79 (seventy-nine) sub-functions. The use of particular functions/sub-functions depends on the principal duties and

functions of the State Ministry/Institution or Local Government Line Unit in question.

2. “Program” means the elaboration of a State Ministry/Institution or Local Government Line Unit’s policy in the form of an endeavor that consists of one or more activities that employ the allocated resources for the purpose of achieving outcomes that accord with the mission being pursued by the agency or community in question under the coordination of the State Ministry/Institution concerned. Consequently, the formulation of a program must explicitly highlight the link with the relevant underlying policy, and have clear and measurable performance targets that support the achievement of the policy objectives. A program is implemented based on terms of reference that detail, among other things, the implementation approach and methodology, the various activities that will be undertaken, the performance indicators to be used in assessing the success of the program, and a clear line of accountability.

3. “Activities” constitute components of a program being implemented by one or more Line Units as part of the effort to achieve measurable program targets.

Activities consist of a series of actions that involve the mobilization of resources in the form of human resources, capital goods (including equipment and technology), and funding as inputs for the production of the desired output in the form of goods and/or services.

4. “Sub-activity” represents a component of an activity that supports the achievement of the activity targets and objectives. An activity may be divided into 2 (two) or more sub-activities as the said activity may have two or more types and units of output. Thus, one sub-activity may be distinguished from another based on differences in output. An activity/sub-activity must clearly reveal its relationship with the program of which it is a part, and must have clear and measurable output targets for the purpose of supporting the achievement of the overall program objectives.

Chapter V

Classification by Expenditure Type

A. State Expenditure under National Budget Appropriations

As mandated by article 11(4) of the State Finances Act 2003 (No. 17 of 2003), the expenditure mandated by the Central Government Budget is to be employed in the performance of the Central Government's duties and for accommodating fiscal transfers as between the Central Government and Local Governments. Thus, there are two types of Central Government outlays, namely, government expenditures and fiscal transfers. Outlays in the form of expenditure on the discharge of government functions are, in accordance with the relevant legislation, classified by organization, function and type. In the particular case of management control, classification by economic category or expenditure type provide straightforward tools for ensuring control at the budget planning, implementation and accountability stages. In this regard:

- Operating expenditure consists of expenditure on employees, goods, interest payments, subsidies, grants and social assistance;

- Capital expenditure consists of expenditure on land; equipment and machinery; buildings and properties; road, irrigation and transmission networks; and other fixed assets;
- Other/Unexpected Expenditure;
- Transfers

In preparing a Budget Realization Statement, as governed by Government Accounting Standards No. 02, the classification presented is based on expenditure type.

B. Expenditure under Local Government Budget Appropriations

In the case of Local Governments, Government Regulation No. 58 of 2005, as elaborated by Minister of Home Affairs Regulation No. 13 of 2006, provides that expenditures are classified based on expenditure type as either direct or indirect expenditures. Indirect expenditures consist of those budgeted expenditures that are not directly related to the implementation of a program or activity, while, conversely, direct expenditures are budgeted expenditures that are directly related to the implementation of a program or activity.

Indirect expenditures are differentiated by expenditure type, and consist of:

1. Employee Expenditure;
2. Interest Expenditure;
3. Subsidy Expenditure;
4. Grant Expenditure;
5. Social Assistance Expenditure;
6. Revenue Sharing Expenditure;
7. Financial Assistance Expenditure; and
8. Other/Unexpected Expenditure.

Meanwhile, the direct expenditure category is also differentiated by expenditure type, and consists of:

1. Employee Expenditure;
2. Procurement Expenditure; and
3. Capital Expenditure.

Employee Expenditure in the direct expenditure category refers to expenditure on honorariums/salaries as part of a Local Government program or activity. This type of expenditure is intended to accommodate such things as the payment of honorariums to procurement committee members and administration costs in procuring all assets that are budgeted for in Capital Expenditure (Employee Expenditure and/or Procurement Expenditure).

Procurement Expenditure is used to accommodate expenditures on the purchase/procurement of goods that are expected to be consumed within less than 12 (twelve) months and/or services as part of the implementation of Local Government programs and activities. Procurement Expenditure covers expenditure on consumables; materials; office services; insurance premiums; motor vehicle maintenance; printing/reproduction; rental of houses/buildings/stores/parking spaces; rental of mobile facilities; rental of heavy equipment; rental of office equipment and requisites; food and beverages; official uniforms and attributes; work clothes; clothes for special events; official travel; and transportation for employees.

Capital Expenditure is used for outlays that arise in the context of the purchase/procurement or development of tangible fixed assets that have a useful life of more than 12 (twelve) months, such as land, equipment and machinery, buildings and properties; road, irrigation and transmission networks; and other Fixed Assets. The value of a purchase/procurement or development of a fixed asset as budgeted for in Capital Expenditure shall be limited to the purchase/development price of the asset.

C. Illustrations of Expenditure Types: Budgeting and Reporting

In order to ensure a uniformity of understanding, both as regards budget preparation and reporting, there now follows a description of expenditure types, accompanied by sample illustrations.

1. Operating Expenditure

Operating Expenditure consists of:

a. Employee Expenditure

Employee Expenditure covers the cost of remunerating employees in monetary terms and in kind, as provided for by the provisions of the laws and regulations in effect. Employees include state officials, civil servants, and non-civil service staff in the employ of government. Examples of Employee Expenditure include salaries and allowances, honorariums, overtime payments, social security contributions, and other payments related to employees.

However, Employee Expenditure excludes remuneration for work performed as part of capital formation.

b. Procurement Expenditure

Procurement Expenditure consists of outlays incurred for the purchase of consumable goods that will be used in the production of other goods and/or services (whether intended to be sold or otherwise); the procurement of goods intended to be delivered or sold to the public; and official travel.

Procurement Expenditure is differentiated into Goods and Services Expenditure, Maintenance Expenditure and Official Travel Expenditure.

1. Goods and Services Expenditure consists of outlays that are incurred for the purpose of purchasing day-to-day office requisites; consumables such as office stationery and writing utensils; the procurement/replacement of office inventories; expenditures on work of a non-physical nature that does not directly support the performance of the principal duties and functions of the State Ministry/Institution concerned, the procurement of office inventories whose value does not exceed the minimum capitalization threshold as set by the Central

Government/Local Government, and expenditures on non-physical services such as education and training.

Example:

A particular agency has set the minimum capitalization threshold for Fixed Assets at Rp 300,000. The said agency plans to allocate a budget of Rp 280,000 for the purchase of a calculator.

Thus, the agency will allocate Rp 280,000 for the purchase of the calculator in its Budget under Procurement Expenditure. It will not be necessary to record the said calculator as a Fixed Asset in the Balance Sheet. Instead, it will be sufficient to record it in the Inventory Book.

2. Maintenance Expenditure – this refers to expenditures intended to maintain the value of an existing fixed or other asset in normal condition without having regard to the value (big or small) of the expenditure. Maintenance Expenditure include the maintenance of land, properties and office buildings, official residences, official vehicles, and the repair of building equipment, facilities, road, irrigation and

transmission networks, machinery and equipment, and other things related to government operations.

Example:

A government agency plans to allocate a budget of Rp 2,000,000 to cover the cost of replacing the oil in 10 official vehicles.

The agency will state the said maintenance expenditure in the Central Government Budget/Local Government Budget in the amount of Rp 2,000,000. In respect of the realization of this expenditure, it will be recorded and presented as maintenance expenditure as it does not satisfy the requirements for capitalization as a Fixed Asset because it does not result in additional useful life, capacity or benefit.

3. Expenditure on Official Travel – this is expenditure that is undertaken for the purpose of paying for official travel in the context of the performance of official duties and responsibilities.

Example 1:

An agency plans to fund official travel for the purpose of monitoring the performance of government duties. The proposed cost is Rp 4,000,000 but only Rp 3,900,000 of this is actually spent.

The planned expenditure on official travel is budgeted for in the Central Government Budget/Local Government as Official Travel, and realization is presented in the Budget Realization Statement as Official Travel expenditure worth Rp 3,900,000

Example 2:

An agency plans to purchase consumables worth Rp 9,500,000. The said consumables are to be purchased in Jakarta so that it is necessary to make an allocation of Rp 500,000 for official travel. Accordingly, the purchase of the consumables will be recorded in the Budget Realization Statement as Procurement Expenditure worth Rp 9,500,000, while the official travel costing Rp 500,000 will be presented in the Central Government Budget/Local Government Budget as Procurement Expenditure, and its realization presented in the Budget Realization Statement as Procurement Expenditure worth Rp 500,000. This will serve to increase the value of the consumables purchase to Rp 10,000,000.

C. Interest Expenditure

Interest Expenditure consists of government outlays on the payment of interest on principal outstanding as calculated based on the short- and long-term debt positions.

Example:

An agency in 2006 planned to settle debts amounting to Rp 11,000,000 consisting of Rp 10,000,000 in the form of principal repayments and Rp 1,000,000 in the form of interest payments. In the Central Government Budget/Local Government Budget, the interest payment of Rp 1,000,000 will be recorded in the Interest Expenditure of the Operational Expenditure account (above the line), while the repayment of Rp 10,000,000 in principal will be recorded in Financing Disbursement Transactions (below the line).

Should debt be repaid, the amount must be recorded in detail based on the amount of principal and interest owed. In respect of the realization of principal repayment, this is presented in the Budget Realization Statement as a Financing Disbursement Transaction in the amount of Rp 10,000,000, while the Rp 1,000,000 interest payment is presented in the Budget Realization Statement as Interest Expenditure in the Operational Expenditures account.

In the case of the Central Government, expenditures on the payment of interest is presented in a separate Budget Account, namely, BA 061 (Interest Installments), which forms part of the Financing Account. Thus, budget allocations and realization in the case of interest payments will be presented as Interest Expenditure in the BA 061 Budget Realization Statement or the Central Government's Budget Realization Statement.

d. Subsidy Expenditure

Subsidy Expenditure consists of budget appropriations for enterprises/institutions that produce, sell, export or import goods and services that are necessary for maintaining the standard of living of the majority of people through their sale at prices that are affordable to the public at large. Subsidy Expenditure includes the channeling of subsidies to the public through Central Government/Local Government Business Enterprises and private-sector firms.

Thus, Subsidy Expenditure consists of government expenditures that are given to particular enterprises/institutions for the purpose of keeping production costs down so as to ensure that the goods/services that are produced are affordable to the public at large.

Example:

The cost of the water produced by the XYZ Municipal Water Company is based on the production price plus a profit margin, which givens a price of Rp 1,000 per m3. In order to assist the public, the XYZ Municipal Government decided to allocate a subsidy of Rp 500 per m3 in its 2006 budget. As a consequence, members of the public now only have to pay Rp 500 per m3 of water (Rp 1,000 -/- Rp 500). It was estimated that water consumption in XYZ municipality would amount to 3,000,000 m3 in 2006. Thus, the total subsidy allocated in the municipal budget amounted to Rp 1,500,000,000, but realization would be based on actual water consumption, which in 2006 turned out to be 2,700,000 m3.

The proposed subsidy spending of Rp 1,500,000,000 is stated in the Local Government Budget as Subsidy Expenditure. Similarly, the expenditure of Rp 1,350,000,000 to the local water company is presented in the Budget Realization Statement as Subsidy Expenditure in the Operating Expenditure category.

In the case of the Central Government, the allocation of expenditure on subsidies is also presented in a separate Budget Account, namely, BA 062 (Subsidies and Transfers), which forms part of the Financing account. The expenditure of funds on subsidies and transfers at the central level are incurred for the same purposes as the expenditure of funds on subsidies at the local level.

Example:

The Central Government allocates subsidies and transfers under BA 062 for the purpose of subsidizing fuel so that it is affordable to the public. The retail price of fuel calculated by PT Pertamina (Persero) is based on its production price, plus a profit margin, giving an overall retail price of Rp 2,300 per liter. In order to maintain people’s purchasing power, however, the government decided to allocate a fuel subsidy in the 2006 Central Government Budget. The said subsidy amounted to Rp 500 per liter, thus giving a price charged to the public of Rp 1,800 (Rp 2,300 -/- Rp 500). It was projected that fuel consumption in fiscal 2006 would amount to 1,000,000 liters, thereby giving total anticipated subsidy spending of Rp 500,000,000. However, it turned out that fuel consumption in 2006 only amounted to 800,000 liters. As the Central

Government’s fuel subsidy spending is dependant on the actual amount of fuel consumed, the overall subsidy paid amounted to Rp 400,000,000, which will be presented as Subsidy Expenditure in the BA 062 Budget Realization Statement and the Central Government’s Budget Realization Statement.

e. Grant Expenditure

A grant consists of government outlay in the form of money/goods or services donated to another government, a local government, the public or community organizations that is made for a specific purpose, is non-mandatory and non-binding, and which is made on a one-off basis.

Examples:

1. Grant in monetary form

   In fiscal 2006, an agency decided to allocated Rp 1,000,000,000 to the Buana Lingkungan environmental organization. The government was not obligated to make the said grant, and it was non-binding and one-off in nature.

   Such grant must be allocated by government as Grant Expenditures, and, similarly, will be recorded in the

Budget Realization Statement as Grant Expenditures in the amount of Rp 1,000,000,000.

2. Grant in form of goods/services

In fiscal 2006, the government resolved to donate 2 vehicles to the Indonesian Red Cross (IRC), which were first to be purchased by the government and then handed over to the IRC, along with proof of ownership.

The funds for the purchase of the 2 vehicles must be stated in the Central Government Budget/Local Government Budget as Grant Expenditure, and realization recorded and presented in the Budget Realization Statement as Grant Expenditure.

If the two vehicles to be handed over to the IRC originate from expenditures in the previous year and have been presented in the 2005 Budget Realization Statement as Capital Expenditure, and in the Balance Sheet as per 31 December 2005 as Fixed Assets, then it will be enough to write off the value of the two vehicles from the Balance Sheet in 2006 as their purchase was not budgeted for in the 2006 Central Government Budget/Local Government Budget, and their realization does not need to be presented in the Budget Realization Statement.

f. Social Assistance Expenditure

Social Assistance Expenditure consists of transfers of goods or services to the public so as to guard against social risks. Social Assistance may be furnished directly to members of the public and/or community organizations. It includes assistance to non-governmental organizations operating in the educational and religious spheres.

Thus, Social Assistance refers to government outlays in the form of money/goods or services that are provided to the public for the purpose of improving public welfare on a selective and non-permanent basis.

Example:

1. In 2006, the government decided to provide assistance of Rp 2,000,000,000 to fishing communities so as to improve their standard of living, which assistance was not intended to be recoverable by the government.

   In this case, the allocation of Rp 2,000,000,000 would be budgeted for in the Central Government Budget/Local Government Budget as Social Assistance Expenditures, while its realization would also be recorded and presented in the Budget Realization Statement as Social Assistance Expenditure.

2. In 2006, the government resolved to provide assistance of Rp 10,000,000,000 to a group of fishermen for the purpose of improving their standard of living. The said assistance was intended to be recovered by the government if the envisaged activities were successful and to subsequently be extended to other groups of fishermen as part of a revolving fund.

   In this case, the assistance would be stated in the Central Government Budget/Local Government Budget under Financing Disbursements, that is, Long-Term Investment Expenditure. With regard to the recovery of the funds in question, this would be recorded and presented as Financing Receipts – Long-Term Investments. Thus, the said assistance would not be recorded as Social Assistance Expenditure as the government intended to recover the funds and relend them to other groups of fishermen. The expenditure of these funds gave rise to a non-permanent Long-Term Investment, which is presented in the Balance Sheet as a Long-Term Investment.

2. Capital Expenditure

a. Criteria for Capital Expenditure

Capital Expenditure refers to budgetary expenditure on the acquisition of fixed and other assets that provide benefit over more than one accounting period. In order to identify whether particular expenditure may be included in Capital Expenditure, it will be necessary to define fixed and other assets, and the criteria for capitalizing fixed assets.

A Fixed Asset has the following characteristics: It is tangible, increases the value of the government’s assets, has a useful life of more than 1 year, and its value can be quantified in relatively material terms. Meanwhile, the characteristics of Other Assets are as follows: intangible, will increase the value of the government’s assets, has a useful life of more than 1 year, and its value can be quantified in relatively material terms.

Based on these characteristics, an entity should be able to set accounting policies for the minimum capitalization threshold for Fixed and Other Assets so that the officials responsible for preparing the budget and/or government financial statements will have access to guidelines in determining capital expenditure, both at the time of budgeting and the time of reporting on the government finances.

Based on this explanation, we may conclude that expenditure may be categorized as capital expenditure if:

- The outlay results in the acquisition of a Fixed or Other Asset so as to increase the government's asset stock;
- The outlay exceeds the minimum capitalization threshold for Fixed and Other Assets that has been set by government;
- The acquisition of the Fixed Asset in question is not for the purpose of resale.

Examples:

1. The Government sets a minimum capitalization threshold for Fixed Assets (in the form of plant and machinery), and Other Assets of Rp 300,000 per unit. Meanwhile, the figure for Buildings and Properties, and Road, Irrigation and Transmission Networks is Rp 10,000,000.

   In 2006, the government resolved to purchase 20 calculators at a unit price of Rp 250,000. This meant that a total of Rp 5,000,000 was allocated for the purchase of the 20 calculators.

From the perspective of the type of goods, calculators are tangible assets that have useful lives of more than 12 months. However, because the price of the calculators is below the minimum capitalization threshold of Rp 300,000 per unit of equipment and machinery), they are not presented as Fixed Assets in the Balance Sheet. Thus, while the total acquisition value of the 20 calculators is Rp 5,000,000, the allocation for the purchase of the calculators in the Central Government Budget/Local Government Budget is not classified as Capital Expenditure but rather as Procurement Expenditure. Consequently, the purchase of the calculators is recorded and presented in the Budget Realization Statement as Procurement Expenditure.

2. In fiscal year 2006, the government resolved to purchase 3 ambulances, which were then to be donated to the Indonesian Red Cross (IRC). The unit price of each ambulance was Rp 150,000,000, thus giving a total cost of Rp 450,000,000.

   While the 3 ambulances were not intended to be sold, their procurement would not increase the assets of the government as they were intended to be donated to the

IRC. Thus, the expenditure on the ambulances would not be stated in Capital Expenditure-Equipment and Machinery in the Central Government Budget/Local Government Budget, but rather as Operating Expenditure, while their procurement would be recorded and presented as Grant Expenditure in the Budget Realization Statement.

b. Acquisition Value Concept

The concept of acquisition is not only applied to Fixed Assets, but also to Inventory.

Capital Expenditure covers such things as the acquisition of land; buildings and properties; equipment and machinery; and other assets.[1] The components of Capital Expenditure in the case of Fixed Assets consist of the purchase price of the Fixed Asset plus all other expenses so as to make the asset ready to use, such as transportation costs, the costs of testing the asset, and so forth. Similarly, expenditure on official travel and services related to the procurement of a Fixed Asset or Other Asset, including the cost of services provided by design and supervising consultants, and software development costs are also added to acquisition value. These components must all be budgeted

[1] Including government accounting system applications/programs.

for in the Central Government Budget/Local Government Budget as Capital Expenditure, rather than Operating Expenditure. Of course, attention must be paid to the fair value and reasonableness of additional costs besides than the purchase price of the asset.

Example:

The Ministry of Health/Health Agency plans to purchase medical equipment. The cost components for the purchases of the said medical equipment are as follows:

1. Purchase price	Rp 150,000,000
2. Official travel	Rp 2,000,000
3. Cost of transporting medical equipment	Rp 5,000,000
4. Tryout costs	Rp 4,000,000
Total acquisition price	RP 179,000,000

The acquisition cost of the equipment amounts to RP 179,000,000, which figure is made up of the price of the equipment, plus all costs that arose until such time as the equipment was ready to use.

The planned expenditure on the procurement of medical equipment (including the purchase price, and the cost of official travel, the transportation of the equipment and the conducting of tryouts) will be stated in the Central Government Budget/Local Government Budget as Capital Expenditure-Equipment and Machinery in the amount of Rp 179,000,000. Similarly, in the Budget Realization Statement it will be recorded and presented as Capital Expenditure-Equipment and Machinery in the amount of Rp 179,000,000.

Besides capital expenditure on the procurement of a Fixed Asset or Other Asset, expenditures incurred on the asset after its acquisition will also be categorized as Capital Expenditure in the following circumstances:

1. The expenditure serves to increase the useful life, capacity, quality or volume of the asset;
2. The expenditure satisfies the minimum capitalization threshold for a Fixed Asset or Other Asset.

With regard to the first of the above criteria, the following criteria will apply:

1. By “increased useful life” is meant an addition to the anticipated economic life of an existing Fixed Asset. For example, a building was originally estimated to have an economic life of

10 years. However, in the 7^{th} year the government renovated the building in the expectation that this would allow it to be used for another 8 years, thus increasing the economic life of the building from 10 to 15 years.

2. By “increased capacity” is meant an increase in the capacity of an existing asset. For example, an electrical generator with an output of 200 KW is renovated so as to increase its capacity to 300 KW.

3. By “increased quality” is meant that the quality of an existing asset is increased. For example, a dirt/unsurfaced road is asphalted by the government.

4. By “increased volume” is meant an increase in the volume or dimensions of an existing asset. For example, a building is extended from 400 m2 to 500 m2.

Example 1:

The government decided to allocate to make a budget allocation for the repair of an office building’s leaky roof. According to the plan, the corrugated iron roof was to be replaced by a tiled roof at a cost of Rp 20,000,000.

Prior to the making of such allocation, an analysis will need to be carried out so as to determine whether the allocation should be classified as Capital Expenditure or Operating Expenditure.

The re-roofing work would serve to improve the quality and usefulness of the building, thus satisfying the first of the above criterion. Similarly, the value of the work exceeded the minimum capitalization threshold for Buildings and Properties, which was set by the government at Rp 10,000,000.

Thus, as the allocation satisfied both of the criteria for capitalization as a Fixed Asset, the said expenditure must be allocated in the Central Government Budget/Local Government Budget as Capital Expenditure-Buildings and Properties in the amount of Rp 20,000,000. Similarly, realization will be recorded and presented in the Budget Realization Statement as Capital Expenditure-Buildings and Properties.

Example 2:

A government agency has renovated an office building that it does not own. In general, If such a renovation would increase the usefulness and technical value of the office building, the expenditure should be classified as Capital Expenditure. However, in this case the problem that arises is the fact that the building does not belong to the agency.

In order to find a solution, this issue needs to be studied from the perspective of the theoretical framework governing the capitalization of Fixed Assets-Renovations, which is as follows:

1. Should the renovation work increase the economic usefulness of the building, such as where its changes the function of the building from a store to offices, the said renovations are capitalized as Fixed Assets-Renovations. Should the renovation of a rented building not increase the economic usefulness of the building, then the expenditure is treated as Operating Expenditure. Fixed Assets-Renovations is classified as Other Fixed Assets by the agency that conducted the renovation work.

2. Should the economic benefit produced by the renovation work extend beyond one fiscal year and satisfies the

requirement set out in paragraph 1 above, the cost of the renovation work will be capitalized as Fixed Assets-Renovations, while if the economic benefit does not extend beyond one year, then the expenditure will be treated as Operating Expenditure incurred in the current year.

C. Maintenance Bonds/Guarantees

Under Presidential Decree No. 8 of 2006 on the fourth amendment of Presidential Decree No. 80 of 2003, the payment of the last installment following the handover of work by a third party may be carried out in one of two ways:

1. Ninety-five percent (95%) of the value of the contract is paid, while five percent (5% is retained for the duration of the maintenance period.

2. One hundred percent (100% of the value of the contract is paid to the third party, but the third party must deliver a bond amounting to five percent (5%) of the value of the contract, where such bond has been issued by a public bank or an insurance company that operates a surety bond and reinsurance program that complies with the rules issued by the Minister of Finance.

The retention of five percent (5%) of the value of the contract, as referred to in paragraph 1 above, must be recognized as a Retained Debt, while a bank maintenance bond must be disclosed in the Notes to the Financial Statements.

3. Other/Unexpected Expenditure

Under Paragraph 35 of Government Accounting Standards No. 02, the term “Miscellaneous Expenditure” is employed in the case of the Central Government, while “Unexpected Expenditure” is used in the case of a Local Government. Other/Unexpected Expenditure is budgetary expenditure on activities of an unusual nature or which are not expected to be repeated, such as expenditure incurred as a result of national disasters, social disasters, and other unanticipated expenditure that is essential as part of the performance of Central Government/Local Government duties.

Under Article 3(6) of the State Treasury Act 2004 (No. 1 of 2004), the budget for Other/Unexpected Expenditure is provided in a separate budget account whose utilization shall be provided for by Government Regulation. In the case of the Central Government, the budget account in question is BA 069 (Miscellaneous Expenditure).

Under article 48 of Minister of Home Affairs Regulation No. 13 of 2006, Unexpected Expenditure is defined as expenditure on unusual activities or activities that are not expected to be repeated, such as expenditure incurred as a result of national or social disasters. Such expenditure also includes the return of excess local government revenues from previous years.[2]

Example:

In 2006, Local Government XYZ resolved to allocate Rp 20,000,000 for disaster mitigation as a result of widespread flooding.

The said expenditure of Rp 20,000,000 would be stated in the Local Government Budget as Unexpected Expenditure. Similar, realization would be recorded and presented in the Budget Realization Statement as Unexpected Expenditure. Should the outcome of such expenditure result in the acquisition of Fixed Assets, these would be recorded and presented in the XYZ Local Government's Balance Sheet.

4. Transfers

[2] With regard to the correction of errors in Unexpected Expenditure, this would not be in accordance with Government Accounting Standard No. 10 on the Correction of Errors, Changes in Accounting Policy and Extraordinary Events, which reads as follows:
"Errors in respect of revenue that are unrepeated, occurred during prior periods, and which affect the cash position, should be corrected in the Current Equity account if the financial statements for the period in question have already been issued."

Under Government Accounting Standard No. 02, transfers are presented as expenditures (above the line), but there are also transfers that are not included as expenditures. The definition of a “transfer” is a receipt or disbursement of cash by a reporting entity to or from another reporting entity, including fiscal balance funds and revenue sharing funds.

Paragraph 40 of Government Accounting Standard No. 02 defines a “transfer-out” as follows:

“A transfer-out is a disbursement of money from one reporting entity to another, such as the disbursement of fiscal-balance funds by the central government, and revenue-sharing funds by a local government.”

Under Government Regulation No. 55 of 2005 on fiscal-balance funds, the Central Government is required to allocate fiscal-balance funds to Local Governments amounting to at least 25.50% of total state revenues. In doing so, the Central Government is obligated to make funding transfers to local governments. As by its nature such transfers does not constitute expenditure on the part of the Central Government, they are recorded as transfer-outs, while the local governments receiving them will record them as transfer-ins.

In the case of transfer-ins from the Central Government, the recipient Local Government is free to decide what to do with the funds, which in the end will be converted into expenditure on the part of the Local Government. It is possible that part of the transfers received by provincial/district/municipal governments from the Central Government will be further transferred to subordinate administrations, such as the sub-districts and villages, as assistance funds, in which case they will be recorded as transfer-outs and be accounted for by the said subordinate administrations.

Chapter VI

Presentation and Disclosure of Expenditure in the Financial Statements

The presentation and disclosure of expenditure classifications in the financial statements may be grouped as follows:

- Presentation as expenditure in the Budget Realization Statement;
- Presentation in Cash Outflows from Operations and Non-Financial Asset Investments in the Cash Flow Statement; and
- Disclosure in the Notes to the Financial Statements.

A. Presentation of Expenditure in the Budget Realization Statement

Under Government Accounting Standard No. 02, the expenditure presented in the Budget Realization Statement consists of Operating Expenditure, Capital Expenditure, and Other/Unexpected Expenditure. Meanwhile, classification by function, organization and other classifications that are required for managerial purposes are presented as appendices in the Notes to the Financial Statements.

B. Presentation of Expenditure in the Cash Flow Statement

Under Government Accounting Standard No. 03 on the Cash Flow Statement, expenditure is presented in Cash Outflows from Operations and Investments in Non-Financial Assets. According to paragraph 14 of Government Accounting Standard No. 03, the Cash Flow Statement presents information on cash inflows and outflows during a particular period, classified by Operations, Non-Financial Asset Investments, Financing, and Non-Budgetary Transactions. Cash Outflows for Operations is related to Operating Expenditure, while Cash Outflows for Non-Financial Asset Investments is related to Capital Expenditure. An illustrative Cash Flow Report is presented in the Appendix to Government Accounting Standard No. 3.

C. Disclosure of Expenditure in the Notes to the Financial Statements

Paragraph 13 of Government Accounting Standard No. 04 on Notes to the Financial Statements provides that the Notes to the Financial Statements present information that explains the accounts in the financial statements for the purpose of ensuring sufficient disclosure, including:

1. A summary of financial performance during the reporting year;
2. The disclosure of information as prescribed by the Government Accounting Standards which is not presented on the face of the financial statements;
3. The disclosure of additional information required for a fair presentation, which is not presented on the face of the financial statements.

The additional information on expenditure that is not presented on the face of the financial statements and which needs to be disclosed in the Notes to the Financial Statements consists of the following, among other things:

- Details of expenditure by organization, adjusted and harmonized so as to take account of the organizational structure of each reporting entity.
- Details of expenditure by expenditure function and classification so as to ensure integration and harmonization in the management of the state

finances. This may take the form of a Performance Report, such as referred to in Government Regulation No. 8 of 2006 on Government Agency Financial and Performance Reporting.

- Details of Expenditure by programs and activities, adjusted and harmonized so as to take account of the duties of government delegated to the regions (Minister of Home Affairs Regulation No. 13 of 2006).
- Details of Expenditure by government responsibility, consisting of mandatory and optional expenditure, as referred to in Minister of Home Affairs Regulation No. 13 of 2006.
- Details of Expenditure by Direct and Indirect Expenditure, as referred to in Minister of Home Affairs Regulation No. 13 of 2006.

To facilitate the readers of the financial reports, the disclosures in the Notes to the Financial Statements may be presented by way of narration, charts, graphs, lists and schedules, or other appropriate forms which briefly and comprehensively summarize the financial condition and position of the reporting entity.

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