

ABAS NewsFlash

Assurance/Business Advisory Services

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New Exposure Draft - Accounting for Fixed Assets

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The newsletter of the PricewaterhouseCoopers organisation

Introduction

The Indonesian Institute of Accountants ("IAI") has recently released Exposure Draft ("ED") PSAK 16 (revised 2004), Fixed Assets, for comments. This ED, which is based on the latest version of IAS 16, Property, Plant and Equipment, is an improved version of the ED – PSAK 16 that was issued back in 2002. In this Newsflash, some of the proposed changes to the previous version of PSAK 16 are highlighted.

Revaluations

One of the most significant changes proposed under this ED relates to revaluations performed after a fixed asset is acquired. Under the previous version of PSAK 16 revaluations of fixed assets are not permitted in general. However a company may conduct a revaluation provided such a revaluation is allowed by government regulations. Revaluations are usually a one-off event and once a revaluation is performed there is no requirement to perform further revaluations in the future.

While still maintaining the benchmark treatment of measuring a fixed asset at its cost less any accumulated depreciation and any accumulated impairment losses, the ED proposes, as an alternative treatment, to allow subsequent measurement of a fixed asset at its revalued amount. However, once a revaluation is conducted, further revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The other significant rule is that if a fixed asset is revalued then the entire class of fixed assets to which the asset belongs should also be revalued.

Cost of dismantling, removal and restoration

The ED establishes that the cost of a fixed asset includes the costs arising from an obligation to dismantle or remove the fixed asset or restore the site on which the fixed asset is located. The company may incur such an obligation when the item is acquired or as a consequence of having used the fixed asset during a particular period for purposes other than to produce inventories. Even though the view under the ED is consistent with PSAK 57, Provisions, Contingent Assets and Contingent Liabilities, the previous version of PSAK 16 did not specifically address this issue.

Capitalization of employee benefits costs

The new ED proposes that costs of employee benefits be capitalized as part of a fixed asset if those costs arise from the construction or acquisition of the fixed asset. This stipulation was not explicitly stated in the previous version of PSAK 16.

Results from incidental operations

Under the ED, income and related expenses from incidental operations should be recognised in the profit and loss account. Incidental operations are activities that are not required to bring a fixed asset to the location and condition necessary for its intended operation. Examples: using a building site as a parking lot until construction starts or selling items produced from a plant during its start-up period prior to achieving planned performance levels. The previous version of PSAK 16 did not specifically address this issue

Exchange of fixed assets

Under the ED, when a company acquires a fixed asset in exchange for non-monetary assets or a combination of monetary and non-monetary assets, the acquired fixed asset is recognized at its fair value, unless the exchange lacks commercial substance. The ED does not differentiate whether the exchange is between similar or dissimilar assets. The previous version of PSAK 16 measures such an acquired fixed asset at fair value only when the exchanged assets were dissimilar in nature; a fixed asset acquired in an exchange of similar assets is recognized at the carrying amount of the fixed asset disposed of.

Depreciation

The ED requires that a company determines depreciation charge separately for each

significant part of a fixed asset, rather than for the fixed asset as a whole. This requirement was not specifically mentioned in the previous version of PSAK 16.

The ED also proposes that depreciation of a fixed asset begin when the asset is available for use and depreciation should continue until the asset is derecognized even if during that period the asset is idle.

Change in depreciation methods

The ED proposes that a change in depreciation methods be treated as a change in estimate and the impact of the change is accounted for prospectively. The previous version of PSAK 16 mentions that a change in depreciation method is regarded as a change in accounting policies which implies that the change is accounted for retrospectively.

Review of depreciation method, residual value and useful life

Under the ED, the depreciation method, the residual value and the useful life of a fixed asset should be reviewed at least each financial year. The previous version of PSAK 16 required review of the depreciation method and the useful life periodically, but did not specify whether periodically means annually.

Derecognition

The ED provides criteria for derecognizing a fixed assets, i.e when the asset is disposed of or when there is no future economic benefits expected from its use or disposal. This criteria did not exist in the previous version of PSAK 16.

Accessing the ED

The ED can be viewed at IAI's website, www.iaiglobal.or.id. If you would like to submit comments on this ED, you can do so by contacting IAI or e-mailing them at iai_info@iaiglobal.or.id. The comment period ends on **17 December 2004**.

Please consider the potential impact the ED may have on your company, because the impact can be significant and it is proposed that the standard is applicable in **2005**.

If you have any concern or question regarding matters in this NewsFlash, please contact your engagement partner or Dudi Kurniawan of the PricewaterhouseCoopers Technical Committee at dudi.m.kurniawan@id.pwc.com