

Assurance NewsFlash

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New Accounting Proposal on Investment Property

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The newsletter of the PricewaterhouseCoopers organisation

The Indonesian Accounting Standards Board (Dewan Standar Akuntansi Keuangan), the standards-setting arm of the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or "IAI"), recently issued an Exposure Draft to supersede accounting standard PSAK 13 – Accounting for Investments. This draft, based on International Accounting Standard ("IAS") 40, will address the topic of investment properties in particular.

The draft on Investment Property is part of the three interrelated standards that are expected to become effective in 2007. The other two standards are PSAK 16 – Fixed Assets (revised) and PSAK 30 – Leases (revised). The standard on Fixed Assets, based on IAS 16, is virtually finished but has not yet been approved by the Board. The standard on Leases, based on IAS 17, is still in the planning stage.

Proposed changes

Under the existing PSAK 13 "Accounting for Investments", an investment property is usually recorded as part of long-term investments unless it is intended to be held for a period of one year or less. Such an investment property should not be presented as a part of fixed assets and is not depreciated.

Exposure Draft PSAK 13 (revised 2006) – Fixed Assets provides a new definition of investment property, which is described below. The draft also proposes that an

investment property be measured either at cost or at fair value. However if measurement based on cost is chosen, the fair value of the investment property still has to be disclosed. Salient features of the Exposure Draft are explained below.

Definition

Under Exposure Draft PSAK 13 (revised 2006), an investment property is a property (land or a building, part of a building, or both) held by the owner or lessee under a finance lease to earn rent or for capital appreciation purposes. The property is not used in the production of goods or services; nor is it sold in the ordinary course of business.

In the consolidated financial statements, investment property excludes property occupied by the parent or a subsidiary or fellow subsidiaries. It includes property that is leased to an associate or joint venture that occupies the property, as associates and joint ventures are outside the consolidated group.

Assets (such as land) held by a lessee under an operating lease should be recognised as operating leases. However those assets may be treated as an investment property when:

- They meet the definition of an investment property (i.e. they are held to earn rent or for capital appreciation, rather than used in the production of goods or services), and
- Fair value model is used.

Properties held for use in the production or supply of goods or services, or for administrative purposes are accounted for as part of fixed assets. Properties held for sale in the ordinary course of business are accounted for as inventories.

Recognition and initial measurement

For an investment property to be recognised in the balance sheet of a company, it should meet these two recognition criteria of an asset:

- It is probable that the future economic benefits associated with the property will flow to the company.
- The cost of the property can be measured reliably.

The cost of a purchased investment property is the fair value of its purchase price plus any directly attributable costs, such as professional fees for legal services, property transfer taxes and other transaction costs.

The cost of a self-constructed investment property is its cost at the date when construction or development is complete. The investment property is classified and measured as a fixed asset until that date.

Subsequent measurement

A company may choose, as its accounting policy, to carry investment properties at fair value or cost. However, when an investment property is held by a lessee under an operating lease, the company should follow the fair value model for all its investment properties. The fair value model requires measurement of all of the investment properties at fair value (except when the fair value cannot be measured reliably on a continuing basis).

Changes in the fair value should be recognised in the profit or loss account in the period in which they arise.

Transfers

Transfers to, or from, an investment property account is possible when there is a change in use as evidenced by events such as:

- The commencement of owner-occupation
- The end of owner-occupation
- The commencement of development of property with a view to sale
- The end of construction or development.

Disposals

An investment property is derecognized (or eliminated from the balance sheet) when it is disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Comments deadline

Exposure Draft PSAK 13 (revised 2006) – Investment Property can be viewed and downloaded from IAI's website at www.iaiglobal.or.id.

If you would like to submit any comment on this Exposure Draft, please contact IAI at their e-mail: iai-info@iaiglobal.or.id. The comment period ends on 10 February 2006.

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.