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Implementation of construction accounting in Progress (PSAP 08) in Indonesia

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Abstract

Government Accounting Standards (SAP) was first published by the Accounting Standards Committee (PSAK) as the Government Regulation No. 24 of 2005. Fixed Asset Accounting for Government set out in Government Regulation (PP) number 24 of 2005 the Government Accounting Standards No. statement 08 (SAP No. 08) concerning Construction Accounting in Work. What is meant by construction in progress is an asset that is under construction. Construction in progress includes land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets whose acquisition and/or construction process requires a certain

period of time and has not been completed. The purpose of the Statement of Construction Accounting in Progress Standards is to regulate the accounting treatment for construction in progress.

Problems that often occur in construction in progress are usually caused by contracts for the construction of tangible fixed assets. This contract is called a contract executed by a contractor, which is an entity that enters into a contract to build assets or provide construction services for the benefit of another entity in accordance with the specifications set out in the construction contract.

Keywords: Construction accounting in progress, SAP No. 08

1. Introduction

PSAP Number 08 states that Construction Accounting in Progress are assets that are under construction. includes land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets whose acquisition and/or construction process requires a certain period of time and has not been completed. The acquisition of a construction contract generally requires a certain period of time. The acquisition period can be less or more than 1 (one) accounting period. Acquisition of assets can be done by building yourself or through a third party with a construction contract. The purpose of the Statement of Construction Accounting in Progress Standards is to regulate the accounting treatment for construction in progress. This standard statement provides guidance for identifying work that can be classified as Construction In Work; determination of the amount of costs to be capitalized and presented in the balance sheet; and determination of the basis for recognition and disclosure of construction costs.

2. Literature Review

2.1 Terms in construction accounting in work

Following are the terms used in the Standard Statement with the meaning:

- Assets are economic resources controlled and/or owned by the government as a result of past events and from which future economic and/or social benefits are expected to be obtained, both by the government and the community, and can be measured in units of money, including sources of income. non-financial resources required for the provision of services to the general public and resources maintained for historical and cultural reasons.
- Fixed assets are tangible assets that have a useful life of more than 12 (twelve) months to be used, or intended to be used, in government activities or utilized by the general public.
- Construction in progress are fixed assets that are under construction.
- A construction contract is an engagement made specifically for the construction of an asset or a combination that are closely related to each other or interdependent in terms of design, technology, and function or primary purpose or use.
- Contractor is an entity that enters into a contract to build assets or provide construction services for the benefit of another entity in accordance with the specifications set out in the construction contract.
- Advance work is the amount received by the contractor before the work is carried out in the context of the construction

contract.

- Advance work is the amount received by the contractor before the work is carried out in the context of the construction contract.
- Claim is the amount that the contractor asks the employer to reimburse the costs that are not included in the contract value.
- Employer is an entity that enters into a construction contract with a third party to build or provide construction services.
- Retention is the amount of progress billing that has not been paid until the fulfillment of the conditions specified in the contract for the payment of that amount.
- Term (progress billing) is the amount billed for work performed in a contract, either paid or unpaid by the employer.

2.2 Construction In Work

Construction in progress includes land, equipment and machinery, buildings and structures, roads, irrigation and networks, as well as other fixed assets whose acquisition and/or construction process requires a certain period of time and has not been completed. Acquisitions through construction contracts generally require a certain period of time. The acquisition time period can be less or more than one accounting period. Acquisition of assets can be done by building yourself (Self-Management) or through a third party with a construction contract.

2.3 Construction Contracts Construction

Contracts may involve the acquisition of a number of assets closely related or interdependent with each other in terms of design, technology, function or purpose, and primary use. Contracts like This is for example the construction of irrigation networks.

Construction Contracts may include the following:

- a. Contracts for the acquisition of services that are directly related to the planning of construction of assets, such as architectural services
- b. Contracts for the acquisition or construction of assets
- c. Contracts for the acquisition of services that are directly related to the supervision of the construction of assets which include construction and management value engineering;

Contracts to dismantle or restore assets and restoration of the environment

2.4 Unification and Segmentation of Construction Contracts

The provisions of this standard are applied separately for each construction contract. However, under certain circumstances, it is necessary to apply this statement to a component of a construction contract individually identifiable single or a group of contracts constructed together to reflect the nature of a construction contract or group construction contracts.

If a construction contract includes a number of assets, the construction of each asset is treated as a separate construction contract if all of the following conditions are met:

- a. Separate proposals have been submitted for each asset;
- b. Each asset is negotiated separately and the contractor and employer may accept or reject the portion of the contract relating to each asset;
- c. The cost of each asset can be identified.

A contract can contain a clause that allows the construction of additional assets at the request of the employer or it can be amended so that additional asset construction can be included in the contract. Additional construction is treated as a separate construction contract if:

- a. The additional assets differ significantly in design, technology or function from the assets covered by the original contract; or
- b. The price of the additional asset is determined regardless of the original contract price.

2.5. Recognition of Construction in Work

A tangible object must be recognized as Construction in Work if:

- a. It is probable that future economic benefits associated with the asset will be obtained;
- b. The acquisition cost can be measured reliably; and
- c. The asset is still in progress.

Construction in progress is usually an asset that is intended to be used for government operations or utilized by the community in the long term and is therefore classified as fixed assets.

Construction in progress is transferred to the relevant fixed asset post if the following criteria are met:

- a. Substantial construction has been completed; and
- b. Can provide benefits/services in accordance with the purpose of acquisition;

A Construction Accounting in Progress is transferred to the relevant fixed assets (land; equipment and machinery; buildings and buildings; roads, irrigation and networks; other fixed assets) after the construction work is declared complete and ready to be used in accordance with the purpose for which it was acquired.

2.6 Measurement

Fixed assets owned or controlled by the government must be assessed or measured to be reported in the balance sheet. According to SAP, property, plant and equipment acquired or built on a self-managed basis are valued at cost. In general, what is meant by acquisition cost is the total cost incurred to acquire fixed assets until the fixed assets are in a condition and place that is ready for use. This can be implemented on fixed assets that are purchased or built on a self-managed basis.

Fixed assets whose cost is unknown are presented at fair value. Fair value is the exchange rate of fixed assets with similar conditions in the market at the time of valuation. Fixed assets originating from grants, whose acquisition price is unknown, the government can use their fair value at the time of acquisition.

Cost components that can be included as the cost of a fixed asset consist of:

- Purchase price,
- Import duty,
- Site preparation costs,
- Initial shipping costs (initial delivery) and the cost savings and unloading(handling costs),
- Installation cost,
- Professional fees such as architects and engineers, as well as
- Construction costs (direct costs for labor, raw materials, and indirect costs including planning and supervision

costs, equipment, electric power, equipment rental, and all other costs incurred in connection with the construction of the fixed assets).

The components of fixed asset costs are not included

- Administrative costs and other general costs to the extent that these costs are not directly attributable to the cost of the asset or bringing the asset to its working condition.
- Start-up costs and similar pre-production costs unless they are necessary to bring the asset to its working condition.

For a government that is preparing a balance sheet for the first time, there needs to be a slightly different approach to including the value of its fixed assets on the balance sheet. The approach is to use the fair value of property, plant and equipment at the time the balance sheet is prepared. This fair value valuation may be limited to the acquisition value of property, plant and equipment that is materially different from its fair value or acquired more than one year prior to the date of preparation of the initial balance sheet.

2.7 Construction Cost

Value of self-managed construction

- a. Costs directly related to construction activities;
- b. Costs that are attributable to activities in general and can be allocated to the construction; and
- c. Other costs that are specifically charged in connection with the construction in question.

Costs that are directly related to a construction activity include, among others:

- a. Cost of field workers including supervisors;
- b. The cost of materials used in construction;
- c. Cost of moving facilities, equipment, and materials from and to the construction site
- d. Cost of rental of facilities and equipment;
- e. Design costs and technical assistance directly related to construction.

Costs that are attributable to construction activities in general and can be allocated to specific constructions include:

- a. Insurance;
- b. Design and technical assistance costs not directly related to a particular construction;
- c. Other costs that can be identified for the construction activity concerned such as inspection costs.

Such costs are allocated using a systematic and rational method and are applied consistently to all costs that have the same characteristics. The recommended cost allocation method is the weighted average method on the basis of the proportion of direct costs. The value of the construction carried out by the contractor through the construction contract includes:

- a. Term that has been paid to the contractor in relation to the level of completion of the work;
- b. Accrued obligations to contractors in relation to work received but not yet paid as of the reporting date;
- c. Payment of claims to contractors or third parties in connection with the execution of construction contracts.

Contractors include the main contractor and other contractors. Payments for construction contracts are generally made in stages (terms) based on the level of completion specified in the construction contract. Every payment made is recorded as an addition to the Construction In Progress value. Claims may arise, for example from delays caused by the employer, errors in specifications or designs and disputes over irregularities in contract execution. If construction is financed by borrowing, borrowing costs incurred during the construction period are capitalized and add to construction costs, to the extent that these costs can be identified and determined reliably. Borrowing costs include interest costs and other costs incurred in connection with loans used to finance construction. The amount of borrowing costs to be capitalized should not exceed the amount of interest paid and accrued in the relevant period.

If the loan is used to finance several types of assets acquired in a certain period, the related period's borrowing costs are allocated to each construction using the weighted average method of total construction costs. If construction activities are temporarily suspended not due to force majeure reasons, the borrowing costs paid during the temporary suspension of construction are capitalized. Temporary suspension of construction contract work can occur due to several things such as conditions force majeure or interference from the employer or the authorities due to various reasons. If the dismissal is due to interference from the employer or the authorities, the borrowing costs during the temporary layoff are capitalized. On the other hand, if the temporary suspension is due to force majeure conditions, borrowing costs are not capitalized but are recorded as interest expense in the relevant period. Construction contracts that include several types of work whose completion falls at different times, the type of work that has been completed is not taken into account by borrowing costs. Borrowing costs are only capitalized for types of work that are still in progress.

A construction contract may include several types of assets, each of which can be identified as referred to in paragraph 12. If the types of work are completed at different points in time, borrowing costs are capitalized only for borrowing costs for parts of the construction contract or types of work that have not been completed. Part of the work that has been completed is no longer taken into account the cost of the loan.

2.8 Disclosure

An entity shall disclose information regarding Construction In Work at the end of the accounting period:

- a. Details of the construction in progress contract along with the level of completion and the timeframe for completion;
- b. Value of construction contracts and sources of funding.
- c. The amount of costs that have been incurred and accrued;
- d. Advances for work provided;
- e. Retention.

Construction contracts generally contain provisions regarding retention, for example the last payment term that is still being held by the employer during the maintenance period. The amount of retention is disclosed in the Notes to the Financial Statements.

Assets can be financed from certain funding sources. The inclusion of sources of funds is intended to provide an overview of the sources of funds and their absorption up to a certain date.

2.9 The effective date of this

Statement of Government Accounting Standards (PSAP) is effective for financial statements on accountability for budget implementation starting from Fiscal Year 2010. In the event that the reporting entity has not been able to apply this PSAP, the reporting entity can apply the Cash-Based PSAP to Accrual for a maximum of 4 (four) years after Fiscal Year 2010.

Example

On 20 September 2007 A local government free the land area of 100,000 m² in the form of a swamp. The value of the exemption is Rp. 10,000,000,000.- The acquisition tax on the land value is Rp. 500,000,000,- which must be deducted from the price of the land because the tax is borne by the seller. The management fee including land certification is Rp. 250,000,000.- The land will be used to build an office building. The cost of backfilling and hardening the land is Rp. 120,000,000 for a part (25%), so the land is not ready for building.

The example illustrates that the purchased land must be backfilled with soil from another location, as well as hardened. As of December 31, 2007, the backfill and hardening of the land had not been completed, therefore the value related to the acquisition and construction of the land was recorded in the "Construction in progress" account.

The values are as follows

Table 1

| | | |
|---|--|-------------------|
| 1 | Value of land | Rp 10,000,000,000 |
| 2 | Management fee, including land certificate | Rp 250,000,000 |
| | Acquisition value | Rp 10,250,000,000 |
| 3 | Deduction fee | Rp 120,000,000 |
| | Land under construction value () | Rp 10,370,000,000 |

The land rights acquisition fee of Rp. 500,000,000 is collected by the Regional General Treasurer to be deposited with the State. To record the acquisition value of land is as follows:

As of September 20, 2007

Dr Capital Expenditure

Rp 10,250,000,000,-

Cr Cash in Regional General Treasurer

Rp 10,250,000,000

To record the cost of acquiring land rights borne by the seller and Pemda A to collect it, it is recorded in the following journal:

Dr. Cash in the Revenue Treasurer

Rp. 500,000,000.-

Cr Third Party Calculation

Rp. 500,000,000.-

To record the emergence of assets in the form of land that has not been used for government operations, a corollary journal is made as follows:

Dr. Other Fixed Assets

Rp 10,250,000,000,-

Cr. Invested in fixed assets

Rp.10,250,000,000,-

To record the BPHTB deposited into the State Treasury in the amount of Rp. 500,000,000,- is as follows:

Dr. Third Party Calculation

Rp.500,000,000.-

Cr. Cash in the Expenditure Treasurer Rp.

500,000,000.-

To record the cost of backfill, flattening and compaction of Rp 120 million are:

Dr. Goods Expenditure

Rp. 120,000,000,-

Cr Cash in Regional General Treasurer Rp.

120,000,000,-

Dr. Other Fixed Assets

Rp. 120,000,000.-

Cr Invested in Fixed Assets

Rp. 120,000,000,-

On December 31, 2007 it was calculated that the land that had been acquired was under construction which had cost the process of backfilling, leveling and compaction of Rp 120,000,000,- so that the value of the land under construction was Rp 10,370,000,000. Then the journal entry is as follows:

Dr. Construction Accounting in Progress

Rp 10,370,000,000,-

Cr Other Fixed Assets

Rp 10,370,000,000,-

For example, on July 25, 2008, Rp 550,000,000 was paid for the work of filling, leveling and hardening the land above, and it was declared that it had been completed and ready for an office building to be built; then the journal entry is as follows:

Recording the expenditure of money for the cost of backfilling, smoothing and hardening of Rp. 550,000,000,-

Dr. Goods Expenditure

Rp. 550,000,000.-

Cr Cash at the Regional General Treasurer

Rp. 550,000,000.-

The corollary journal entries are:

Dr. Construction Accounting in Progress

Rp. 550,000,000,-

Cr Invested in Fixed Assets

Rp. 550,000,000,-

The construction of land that has been completed and is ready to be used for the construction of office buildings for government operations must be recorded as the value of fixed assets "Land". Its value is shown in its ledger.

So the balance sheet account that has value is the "Land" account and the "Invested in Fixed Assets" account, while the "Construction Accounting in Progress" account has no balance, because it has been closed to the "Land" account.

3. Methods

This study uses a literature study, which is a study whose

preparation is the same as other research, but the sources and methods of data collection are by taking data from libraries, reading, taking notes, and processing research materials. The variables in the literature study research are non-standard. The data obtained were analyzed in depth by the author. The purpose of this paper is to know a general description of network security management.

4. Result and Discussion

Construction in progress is disclosed in the Notes to the Financial Statements. Information regarding Construction Accounting in Progress that must be disclosed in the Notes to Financial Statements at the end of the accounting period are:

1. Details of the construction in progress contract along with the level of completion and the time frame for completion;
2. Value of construction contracts and sources of financing;
3. The amount of costs that have been incurred;
4. Advances for work provided;
5. Retention.

Construction contracts generally contain provisions on retention. For example, terms that are still retained by the employer during the maintenance period. The amount of retention is disclosed in the Notes to the Financial Statements. Things that need to be considered and become suggestions are that more reviews should be carried out on cases real regarding conditions in the field, especially in government agencies and forms of recording that can be used as guidelines so that the Accounting Standards used can be implemented properly and accountability.

5. Conclusion

In accordance with Government Regulation (PP) Number 71 of 2010 concerning Government Accounting Standards, Questions on Government Accounting Standards (PSAP) Number 08 regarding Construction Accounting in Work, both contained in Appendix I of Accrual-Based Accounting Standards that must be used starting in 2015 and Appendix II. Government Accounting Standards Based on Cash to Accruals which can still be used until 2014, it is stated that Construction Under Work () are assets that are in the process of building land, equipment and machinery, buildings and buildings, roads, irrigation and networks and other fixed assets whose acquisition and/or construction process requires a certain period of time and has not been completed. Acquisitions through construction contracts generally require a certain period of time. The time period for the acquisition can be less or more than an accounting period. Acquisition of assets can be done by building yourself (Self-Management) or through a third party with a construction contract.

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