

Research.

ANALYSIS USE OF FIXED ASSETS DEPRECIATION METHOD ON COMPANY PROFITS

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Abstract - This study was conducted with the aim to know the accounting policy of depreciation of fixed assets determined by the company and how the influence of accounting policy depreciation of fixed assets applied by the company to the company's earnings. The research method used is descriptive method of analysis is a research that aims to collect data that have a relationship with the problems studied, then processed and analyzed and then the solution. While the data used is quantitative data in the form of numbers. After examining and analyzing the company's treatment in calculating depreciation for fixed assets, it can be concluded that the accounting policy of depreciation of fixed assets applied by the company has been in accordance with the applicable financial accounting standards that is straight-line method and the use of different methods will result in different amounts of depreciation. Using the straight-line method of depreciation expense for each fixed period, profits generated in the early years are greater than in subsequent years. While in the method of balance decreased multiply depreciation expense higher in the early years and lower load in the coming period. The resulting profits were smaller in the early years and were greater in previous years.

Keywords: depreciation, profit, fixed assets.

INTRODUCTION

Fixed assets are a very important element, used in the normal operation of the company. The asset still requires a considerable amount of funds in its investment, therefore it takes careful planning in the procurement of fixed assets. The treatment of fixed assets, when at ownership, fixed assets should be recorded and reported at cost. As for the periods after ownership and is used in the normal operation of the enterprise, the fixed assets are recorded and reported at cost less minus depreciation or depreciation accumulated or in the amount of the book value.

The accounting practices of fixed assets and their depreciation have an impact on the financial statements. This is evident from the amount of depreciation depicted in the financial statements. If the value of depreciation is relatively large then this will have an impact on the value of a small profit. If the profit generated is small, the dividend will be received by the small shareholder. Likewise, the tax to be paid by the government is also small. The effect on the balance sheet, the large depreciation expense from period to period resulted in the accumulation will appear large too. Since the accumulation will reduce the book value, the book value shown is also small, so the value on the balance sheet for the fixed asset item cannot provide reliable financial information to the interested parties.

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LITERATURE REVIEW

Fixed Assets are assets acquired in ready-to-use or pre-built form, used in company operations, not intended for sale in the framework of the normal activities of the enterprise and have a useful life of more than one year.

Since fixed assets have a useful life of more than one year, the estimated useful life of those assets should be estimated at the time of acquisition. At the time of acquisition of money to obtain assets is the cost of assets that provide usefulness over the useful life of the fixed assets. Consequently, because the cost of fixed assets is for all benefits, while every year there is always measurement and reporting on the performance of the company that includes income and expenses, the cost of the fixed assets should also be allocated as an expense which later this burden will be compared with the income earned in the current year.

The classification of fixed assets ie, fixed intangible assets and fixed intangible assets. Tangible fixed assets are assets perceived by the human senses consisting of assets in the form of factories and equipment, namely land, buildings, machinery, equipment, furniture, vehicles and auxiliary equipment. While the fixed assets in the form of natural sources include mining, oil content, various mines, gas content, lead content and content in other soils.

Intangible fixed assets include goodwill, trademark, patent, copyright, franchise, establishment of the organization.

At the time of acquisition of tangible fixed assets should be recorded and reported as acquisition cost. While the periods after the ownership and are used in the normal operation of the company, tangible fixed assets should be reduced accumulated depreciation. The acquisition cost is the costs incurred to acquire the fixed assets until the fixed assets are ready for use.

Acquisitions of fixed assets include cash, credit, exchanged for securities, prizes, and self-made.

Expenditures after the acquisition of fixed assets include maintenance, reparations, additions and rearrangements. Depreciation or depreciation is a systematic loss of value caused by usage, obsolescence, physical deterioration, and inaccuracy, the passage of a time or a change in cost to the burden of a fixed intangible asset.

Total depreciation represents a credit balance called accumulated depreciation which indicates that depreciation is not a process of reserve but a process of acquisition of fixed assets.

Factors in determining depreciation charges:

1. Acquisition price is the price at the time of purchase and all costs to be borne by the company.
2. Age of economics is the age of the fixed assets since ready to be used until the fixed assets are economically no longer profitable if still used.
3. Residual value is the estimated amount to be received when the asset is sold or withdrawn from use.

Depreciation calculation method:

1. Based on time
 - a. Straight-line method
 - b. Loading method decreases
 - (1). Method of number of years
 - (2). Declining balance method
2. Based on usage
 - a. Hour service method
 - b. Number of units of production method

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- c. Based on other criteria
- 3. Based other criteria
 - a. Type and group method
 - b. Annuity method
 - c. Inventory system

RESEARCH METHODOLOGY

The methodology used in this research is descriptive analysis method is a research that aims to collect data that have relationship with the problems studied, then processed and analyzed and compared with theoretical knowledge to formulate the problem and then solving it.

RESULTS AND DISCUSSION

The company sets out two policies: cash purchases and credit purchases. Fixed assets acquired through cash purchases will be recorded at their disbursements, if any existing purchase deduction will be included as a deduction of the cost. Purchase on credit is done if the price of fixed assets is relatively large amount.

Table 1
 Depreciation of Straight Line and Double Declining Balance Year 2014 - 2017

	Acquisition cost	Straight Line			Double Declining Balance		
		Years	Depreciation	Book of value	Years	Depreciation	Book of value
Office Transportation	110,800,000	2014	3,693,333	107,106,667	2014	7,389,667	103,413,333
	114,800,000	2015	11,446,667	99,660,000	2015	21,416,000	85,997,333
	114,800,000	2016	11,480,000	88,180,000	2016	17,199,467	68,797,866
	114,800,000	2017	11,480,000	76,700,000	2017	13,759,573	55,038,293
Machines	132,620,000	2014	6,907,292	125,712,708	2014	13,814,583	118,805,417
	145,690,000	2015	18,204,688	120,578,021	2015	32,954,271	98,921,146
	145,690,000	2016	18,211,250	102,366,770	2016	24,730,286	74,191,856
	145,690,000	2017	18,211,250	84,155,520	2017	18,547,715	55,643,145
Office Equipment	4,166,500	2014	2,026,042	22,140,458	2014	4,052,083	20,114,417
	6,346,500	2015	6,489,229	17,831,229	2015	10,952,417	11,342,000
	6,346,500	2016	6,586,625	11,244,604	2016	5,788,604	5,553,396
	6,346,500	2017	6,586,625	4,657,979	2017	2,776,698	2,776,698
Tools	2,597,500	2014	-	2,597,500	2014	-	2,597,500
	12,465,375	2015	1,558,172	10,907,203	2015	3,116,344	9,349,031
	12,465,375	2016	1,558,172	9,349,031	2016	2,337,258	7,011,773
	12,465,375	2017	1,558,172	7,790,859	2017	1,752,943	5,258,830

The method used is the straight-line method with the following rates:

Fixed Assets	Age of economi	Rate of depreciation
Office Transportation	10 years	10 %
Office equipment	4 years	25%
Machines	8 years	12.5%
Tools	8 years	12.55

In this research the authors will compare between the methods used are straight line with the method of double declining balance.

Based on the above table it can be seen how much the percentage difference between the straight-line method and the declining-balance method. The type of fixed assets used as a calculation example is a tool with the percentage of comparison shown in the table below

Table 2.
 Percentage difference
 The straight-line method and the declining-balance method are multiple
 2014 -2017

Years	Straight Method	Declining Balance	Percentage
2014	0	0	0
2015	1.558.172	3.116.344	100%
2016	1.558.172	2.337.258	50%
2017	1.558.172	1.752.943	12.5%

Based on the above calculation can be seen the difference in percentage between the straight-line method and the method of declining balances doubled from year to year declining. In the early years of depreciation that is in 2015 there is a difference in the cost of shrinkage between the two methods is 100%. In the following year it was relatively lower than in the previous year but the method of balance decreasing is still 50% larger than the straight-line method. In 2016 the difference in percentage of small trays is 12.5%.

When using the straight-line method, the depreciation expense of time-to-time is of equal magnitude, since the asset (capacity) usage of each period is relatively fixed and the economic usefulness diminishes over time, while using the method of double-declining balance, the depreciation expense in the early years is higher and depreciation expense in the coming period is lower. Because in the early years the assets experienced a greater loss of service in those years and lower depreciation expense in the last period, at which time the cost of reparation and maintenance was often higher.

The company's profit and loss at the beginning of the period based on the straight-line method is greater than the doubled declining balance of profit, but profit in the following period is greater than the straight-line method. One of the reasons for this difference is from the recognition of the depreciation cost, for the straight-line method the depreciation cost is likely to remain so that the effect on earnings is very small. As for the method of declining balance depreciation costs tend to decrease, so the profit generated tends to increase. On the double declining depreciation at the beginning of its usage period is quite large and will be smaller in the end of its usage. The advantage of this method is if the asset is damaged or stopped its use up, the amount of depreciation that has been done is big enough, so the losses suffered is not too big compared to the straight-line method.

Below is a comparison of the straight-line method of income statements and the method of declining balances 31 December.

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Table 3.
 Straight-Line Method

	2014	2015	2016	2017
Incomes				
Sales	225,376,500	324,231,485	333,773,254	352,254,789
Service income	161,438,750	351,245,251	385,125,148	399,930,010
total	386,815,250	675,476,736	718,898,402	752,184,799
Cost of goods sold				
Salary expense	66,919,800	140,215,487	147,124,571	150,124,584
Raw Materials Expense	200,254,476	287,512,459	299,014,571	302,100,451
Overhead Expense	44,208,027	66,976,163	68,214,541	70,014,451
COGS	311,382,303	494,704,109	514,353,683	522,239,486
Profit/loss	75,432,947	180,772,627	204,544,719	229,945,313
Operation Expense				
Salary Expnese	36,928,000	80,795,500	88,985,250	89,124,147
Office expense	37,552,550	46,123,896	49,862,282	43,124,578
Depreciatin expense	12,626,667	37,698,756	37,836,047	37,836,047
Other expense	167,000	300,000	256,000	302,145
Marketing expense	985,000	736,800	698,700	520,012
Operation expense	88,259,217	165,654,952	177,638,279	170,906,929
Profit/Loss	(12,826,270)	15,117,675	26,906,440	59,038,384
Income and other expense				
Intersect income	39,767	142,397	340,200	430,200
Other expense	(1,724,400)	(4,367,021)	(5,000,000)	(3,570,014)
Total	(1,684,633)	(4,224,624)	(4,659,800)	(3,139,814)
Profit /loss	(14,510,903)	10,893,051	22,246,640	55,898,570

Table 4.
 Comparison of Income Statement Per 31 December
 The Balance Method Double Down

	2014	2015	2016	2017
Income				
Sales	225,376,500	324,231,485	333,773,254	352,254,789
Service Income	161,438,750	351,245,251	385,125,148	399,930,010
Total	386,815,250	675,476,736	718,898,402	752,184,799
COGS				
Salary Expense	66,919,800	140,215,487	147,124,571	150,124,584

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	2014	2015	2016	2017
Raw Materials Expense	200,254,476	287,512,459	299,014,571	302,100,451
Overhead expense	44,208,027	66,976,163	68,214,541	70,014,451
COGS	311,382,303	494,704,109	514,353,683	522,239,486
Gross Profit and Loss	75,432,947	180,772,627	204,544,719	229,945,313
Operation Expense				
Employee expense	36,928,000	80,795,500	88,985,250	89,124,147
Office expense	37,552,550	46,123,896	49,862,282	43,124,578
Depreciation expense	25,253,333	68,439,032	50,055,615	36,836,929
Other Expense	167,000	300,000	256,000	302,145
Marketing expense	985,000	736,800	698,700	520,012
Opeartion Expense	100,885,883	196,395,228	189,857,847	169,907,811
INCOME OPERATING LOSSES	(25,452,936)	(15,622,601)	14,686,872	60,037,502
Income and other expense				
Interest income	39,767	142,397	340,200	430,200
Other expense	(1,724,400)	(4,367,021)	(5,000,000)	(3,570,014)
Total	(1,684,633)	(4,224,624)	(4,659,800)	(3,139,814)
Profits	(27,137,569)	(19,847,225)	10,027,072	56,897,688

Based on the above table it can be seen that at the beginning of earnings period according to the straight-line method is greater than double balance profit decreases, but in the next period the profit generated by double balance method is greater when compared to the straight-line method. One of the reasons for this difference is the recognition of the depreciation cost. For the straight-line method the cost of depreciation is likely to remain so that the effect on earnings is very small. As for the method of declining balance the cost of depreciation tends to decrease, so that the resulting profit increases. In the method of declining balance in the early days of its usage is quite large and will be smaller in the end of its use. The advantage of this method is if the asset is damaged or stopped before its expired, the amount of depreciation that has been done is large enough, so the losses suffered are not too large compared to the straight-line method.

From the above explanation can be seen that both methods have an influence on the value of profit to be achieved company. This happens because the value of depreciation by the straight-line method tends to be constant while the method of declining multiplier declines from year to year. In view of these conditions the company may choose one of the two most profitable methods in accordance with the company's plan of interest, since the cost of depreciation is a recognized cost but its expenditures never occur so that this cost is a source of funds for the company. Besides, the size of the depreciation expense has an effect on the company's profit. The greater the depreciation cost, the profit will be small and this has to do with the tax payment issue for the company.

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CONCLUSION

Based on the results of research conducted on the analysis of the effect of methods of depreciation of fixed assets to the company's income statement, then the conclusion are:

1. The implementation of accounting depreciation of fixed assets applied by the company so far has been good enough and has been in accordance with IFRS or generally accepted accounting principles.
2. By comparing the depreciation method used is the straight line method with the balance decrease in multiple, it turns out the accounting policy of depreciation of fixed assets applied by the company have an effect on the profit. Using the straight-line method will result in greater profits in the early years and the next year will be smaller, while the method of balance decreases in the opposite way, ie in the earliest years the resulting profit is less than the previous period.

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