



ANALYSIS OF APPLICATION OF PERCENTAGE OF COMPLETION METHOD IN RECOGNITION OF CONSTRUCTION CONTRACT REVENUE (PSAK NO. 34) CASE STUDY AT PT. GREAT MITSAL INDONESIA

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Abstract

Strength in revenue recognition will greatly affect the amount of income presented in the financial statements which affect the amount of profit earned in that period. In recognizing revenue PT. Mitsal Luhur uses the percentage of completion method with a physical approach for long-term projects. This is not in accordance with PSAK No. 34 which causes different points of view in determining the company's profit. This study aims to determine the reasons the company applies this approach and analyze how the application of the percentage of completion method in the recognition of construction revenue is applied by PT. Mitsal Luhur Indonesia and analyze which method is the most appropriate method used by construction companies for long-term projects, especially the calculation of construction income. In writing this research, the author uses a qualitative descriptive type of research. The type of data used is quantitative and qualitative data, while the source of data used is primary data, namely the results of interviews from the company regarding revenue recognition and secondary data in the form of project data of PT. Mitsal Luhur Indonesia in particular the Installation For Equipment TOH Intec project. Data collection techniques used are interview and documentation techniques, which will be analyzed by comparing the methods applied by the company with the cost-to-cost approach to revenue recognition. From the results of research conducted, the results of revenues and profits recognized by the physical approach tend to be higher (overstatement) than the cost-to-cost approach, this is because the physical approach is only based on estimates of physical progress without taking into account the costs that have been incurred in completing the project. So the cost-to-cost approach presents more reasonable income and profit because it is calculated based on the costs incurred so that it can reflect the actual performance of the company and is in accordance with the matching principle and the principle of conservatism in the presentation of financial statements.

Keywords: *Construction Revenue Recognition, Percentage of Completion Method, Physical Approach, Cost-to-cost Approach*

1. INTRODUCTION

In the current era of globalization and autonomy, many companies are engaged in construction and manufacturing. Development and Manufacturing is an effort made by the state or company in achieving balance and harmony in various fields, both physical and non-physical. Indonesia is currently actively developing in the physical field, such as the construction of office buildings, housing, transportation facilities, lighting facilities, telecommunications facilities and manufacturing. Construction service companies have distinctive characteristics, where the project work process is not all completed within the accounting period and the start of work is impossible to ascertain at the beginning of the year. If the company is able to win the tender for a particular project, then the company will have the opportunity to be able to show its work performance, as well as the opportunity to earn a profit.

PSAK No. 34 describes the accounting treatment of revenues and expenses related to construction contracts. Due to the nature of the activities performed on a construction contract, the date on which the contract activity is commenced and the date on which the activity is completed usually fall in different accounting periods. Therefore the company must be able to determine the appropriate method of revenue and expense recognition. Thus, an accurate profit calculation and fair financial report will be obtained in accordance with applicable financial accounting standards.

For business entities engaged in construction services, there is a separate method that is different from other types of business entities, especially in the method of revenue recognition. In the percentage of completion method there are two approaches, namely the physical progress approach and the cost to cost approach. These two approaches have different perspectives in recognizing revenue, so the value of recognized revenue and profit is also different. The physical approach method recognizes revenue based on the percentage of completion of the implementation of long-term contracts, based on the physical progress that has been achieved on the work carried out. While the cost-to-cost approach method recognizes revenue



based on the percentage of completion based on input measures, namely the amount of effort and money costs incurred or devoted to the construction of the project. Recognition of revenue in construction companies is an important problem, caused by construction work or projects that have varying completion times. Contracts whose completion is less than one period, in recognizing revenues and expenses there is no problem. On the other hand, for contracts for completion of more than one accounting period, special treatment is required for the recognition of revenues and costs.

According to Marisi.P.Purba in his book *IFRS Convergence & Its Application Constraints in Indonesia* is PSAK 34 concerning Accounting for Construction Contracts the same as IAS, IAS requires the use of the percentage of completion method to recognize revenues and expenses if the construction realization can be estimated reliably. The basic reason for using percentage-of-completion accounting is that in most of these contracts, the purchase and sale acquire enforceable rights. The buyer has the right to get good work performance in accordance with the contract, while the seller has the right to demand payment which provides proof of ownership rights from the buyer. As a result of continuous sales that occur during the work in progress and then revenue can be recognized accordingly (Kieso & Weygandt: 1995). PT. Mitsal Luhur Indonesia is a company engaged in construction services that provides construction, fabrication, mechanical and electrical. With this activity, the company can carry out its business activities and develop the company to be bigger. Revenues from the company include the manufacture of factory warehouses, machine fabrication or procurement of goods, manufacture of silo treads or foundations, and other mechanical work.

2. RESEARCH METHODS

The type of research used in this study is a descriptive qualitative approach. This research was conducted at the company PT MITSAL LUHUR INDONESIA which is located on Jl. Platina I Lk.IX No.48 A Medan. The time of this research was carried out from December 2019 to Finish. Data collection techniques used in this study were interview techniques and documentation techniques. The data analysis technique that the writer uses is descriptive qualitative analysis, namely the method in which the collected data is compiled and analyzed so that it can provide a true picture of the recognition of construction service revenues at PT. Great Mitsal Indonesia.

3. RESULTS AND DISCUSSION

1. Analysis of Application of Percentage of Completion Method in Recognition of Construction Contract Revenue with Physical Approach

In recognizing construction revenue, the company uses the percentage of completion method with a physical approach. Where the company recognizes revenue based on physical completion and or based on a schedule made at the beginning which is used as a guide in completing work. However, the company does not compare the costs that have been incurred to reach the completion stage of project work in the current period. The company considers that by applying the percentage of completion method in recognizing revenue with a physical approach, it is more efficient and easier to determine the percentage value of work completion. Companies do not need to compare the costs incurred just to determine the percentage of the completion stage of the work. This is what makes the company implement this physical approach. The company can also determine what percentage it wants to be billed to the project provider at each stage of completion, by only looking at the physical and the schedule made. However, according to Weygandt, et al in Princess (2018) The physical approach has weaknesses, namely: (1) Estimated completion of physical progress based on hospitalization in the field, does not guarantee the accuracy of the assessment. (2) The amount of revenue recognized is only based on physical progress alone without regard to the amount of costs incurred, (3) In this method the costs incurred cannot be attributed to the stage of completion of project work in recognizing current period revenues, which causes revenues, expenses and profits the reported construction is not attributable to the proportionate completion of the contract work.

PSAK No. 34 states that the company in recognizing its revenue should relate revenue to contract costs incurred in reaching the stage of completion of contract work, namely by considering the estimated total costs or budget plans made at the beginning of the project to be compared with the actual contract costs. In addition, by comparing the planned cost budget with the actual project costs, a more precise percentage of completion can be obtained than the physical estimate based on the field hospitalization. Here we can see in table 4.3 and table 4.4 the company recognizes revenue of Rp. 800,100,000 and gross profit of Rp. 110,857,057 with a physical approach applied by the company.

2. Analysis of Application of Percentage of Completion Method in Recognition of Construction Revenue Using Cost-to-cost Approach



Recognition of revenue on the percentage of completion method with a cost approach or Cost-to-cost, determines the percentage by comparing the total costs that have been incurred in working on the current project (actual costs) with the estimated total project costs or budget plans that have been previously estimated to complete project. The Cost-to-cost approach recognizes revenue by taking into account the amount of costs incurred or the effort that has been devoted or expended to reach the stage of completion of project work in the current period. In this method the costs incurred can be related to the contract revenue recognized in the period, so that the reported revenues, expenses and profits can be attributed according to the completion of the work in proportion to this in accordance with PSAK No. 34. The percentage of completion in a calculated period will be multiplied by the contract value of the project to obtain the revenue recognized for the period. The following is the calculation of the percentage of completion, revenue and gross profit based on a Cost-to-cost approach..

4. CONCLUSION

After calculating the revenue recognition using the percentage of completion method of the physical approach and the cost-to-cost approach, the following conclusions can be drawn:

1. PT. Mitsal Luhur Indonesia recognizes and applies the percentage-of-completion method based on a physical progress approach in recognizing its revenue. The percentage of completion is based on the estimated physical progress of the work accomplished in the field. This estimate of physical progress is stated in the schedule report made by the field supervisor and site manager.
2. The company considers that by applying the percentage of completion method in recognizing revenue with a physical approach it is more efficient and easier to determine the percentage value of work completion. Where the company can determine what percentage it wants to be billed to the project provider at each stage of completion. However, this applied method has several weaknesses, namely: (1) Estimated completion of physical progress based on hospitalization in the field, does not guarantee the accuracy of the assessment. (2) The amount of revenue that is recognized is only based on physical progress alone without regard to the amount of costs incurred, (3) In this method the costs incurred cannot be attributed to the stage of completion of project work in recognizing current period revenue, which causes revenue,
3. There is a difference in recognizing revenue and profit between the physical approach used by the company and the cost-to-cost approach. The physical approach method applied by the company recognizes higher revenues and profits (overstatement) than the cost-to-cost approach. The physical approach method recognizes higher revenue and gross profit by Rp. 3,440,430. Instead of a cost-to-cost approach so that the income and profits presented in the financial statements are overstated and not in accordance with the principle of conservatism in the presentation of financial statements. The cost-to-cost approach method provides a more reasonable picture in recognizing revenues and profits when compared to the physical approach because the cost-to-cost approach recognizes revenue by taking into account the amount of costs incurred or costs that have been devoted to reach the stage of completion of project work, so that in accordance with the matching principle (The Matching Principle) in the context of the presentation of financial statements..

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