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COST ASPECTS OF RENEWAL IN ASSET MANAGEMENT AND FINANCIAL REGULATION

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Abstract
This study examines the cost aspects of asset depreciation and financial regulations that affect the financial management and reporting of entities. Using a literature review method, this study analyses the classification of depreciation costs, their impact on asset performance, and how financial regulations govern the management of these costs to comply with applicable accounting standards and fiscal policies. The results of the study indicate that effective cost management must be supported by compliance with financial regulations to ensure transparency, accountability, and asset sustainability. This study provides an important theoretical basis for policymakers and practitioners in designing efficient and regulatory-compliant asset management strategies.
Keywords: cost aspects, asset renewal, financial regulations, literature review, asset management, asset accounting.

Introduction

Asset renewal is a crucial aspect of managing the financial resources and assets of an entity, be it a company, government agency, or other organisation. Assets that have exceeded their useful life require renewal in order to continue functioning optimally and supporting the achievement of organisational goals. In this context, the cost of renewal is an aspect that cannot be ignored because it has a direct impact on the operational sustainability and financial health of the entity. The costs incurred for renewal must be managed in such a way as to provide added value and increase efficiency without placing an excessive financial burden (Chen et al., 2025).

The view of asset renewal costs is often associated with how these costs are charged, capitalised, or analysed as part of the budget. This shows that the management of renewal costs is not only technical but also strategic and financial. Therefore, a good understanding of the classification and impact of renewal costs is essential for making the right asset management decisions. The financial aspects of asset renewal must be combined with benefit and risk analysis to ensure optimal use of resources (Zhong et al., 2025).

In addition to cost aspects, financial regulations governing asset renewal are an equally important supporting factor. Regulations provide a legal framework and accounting and taxation guidelines that entities must comply with when implementing asset renewal. These rules aim to create transparency, accountability, and clarity in financial reporting, while promoting effective and efficient asset management. The regulations also affect how expenses are recognised, recorded, and reported in the balance sheet and income statement of an entity (Zhang et al., 2025).

In the Indonesian context, regulations related to asset renewal continue to evolve to keep pace with economic dynamics and modern asset management needs. For example, fiscal and accounting regulations governing the treatment of asset renewal costs provide important guidelines in determining when these costs can be capitalised and how depreciation is treated.

Regulations also influence internal company or government policies in allocating renewal funds and making investment decisions. Thus, compliance with regulations is an integral part of good financial governance (Gao et al., 2023). Asset renewal is also closely related to organisational strategies in responding to changes in market conditions, technology, and the business environment.

Strategic asset renewal can increase competitiveness and productivity while reducing the risk of damage or operational failure (Zhang et al., 2025). Therefore, decisions regarding renewal costs must be based on in-depth analysis, including a review of overall costs, long-term benefits, and their impact on financial statements.

This makes the study of cost and financial regulation aspects highly relevant to support information-based decision-making. However, in practice, challenges in managing asset renewal costs are not uncommon. Some entities may face obstacles such as budget constraints, regulatory uncertainty, or a lack of understanding of good asset management.

Cost aspects that are not optimally managed can lead to waste of funds, financial losses, and a reduction in asset value. Meanwhile, non-compliance with regulations also has the potential to cause legal and reputational problems. Therefore, a deep understanding of these two aspects is essential as a basis for developing asset management policies and procedures (Intan & Suparno, 2025).

Financial regulations governing asset renewal also have an important control and supervisory function to prevent misuse of funds and ensure that budgets are used in accordance with their intended purpose. These regulations also provide legal protection for entities and stakeholders in asset management. Thus, understanding regulations is a mandatory part of the competencies required of asset and financial managers (Pradipta & Marina, 2022).

Overall, this study aims to explore in depth the cost aspects of asset renewal and its relationship with financial regulations. This study is expected to contribute useful knowledge for practitioners, policymakers, and academics in managing assets efficiently and in accordance with the applicable legal framework. In addition, this study also opens up opportunities for the development of more effective asset management strategies and policies in the future.

Research Methodology

This research method utilises a library research approach that collects, analyses, and synthesises various relevant literature sources such as books, scientific journals, financial regulations, and policy documents related to cost aspects in asset renewal and financial regulations. This approach was chosen to obtain a comprehensive understanding of the concepts, theories, and best practices that have been developed previously (Eliyah & Aslan, 2025). Data and information were systematically obtained from various reliable sources to support critical analysis and interpretation of how cost aspects are managed in the context of financial regulation and their impact on asset management. Thus, this method provides a strong theoretical foundation while identifying gaps that can be used as recommendations in asset management and financial policy (Baumeister & Leary, 2020).

Results and Discussion

Cost Aspects of Asset Rejuvenation

Asset renewal is a critical process that requires effective cost allocation to ensure that assets continue to function optimally over the long term. Asset renewal costs include expenditures incurred to repair, replace, or renew existing assets, with the aim of maintaining or improving the capacity and performance of those assets. The cost aspect of this renewal is not only about the amount of funds spent, but also about how the management and classification of these costs can have a significant impact on financial statements and operational sustainability (Kartikahadi et al., 2023).

In an accounting context, asset renewal costs can be classified into two main groups, namely capitalised costs and costs charged directly as expenses. Capitalised costs are expenditures that provide long-term economic benefits and increase the value or useful life of an asset, so they are recorded as part of the asset's carrying value. Conversely, directly expensed costs are routine expenditures that only provide benefits in the current period, such as minor maintenance and repairs (Pratama & Wibowo, 2023).

This classification of costs is important in order to regulate accounting treatment in accordance with applicable accounting standards and regulations. For example, large investment costs to extend the life of an asset or increase its capacity must be capitalised and depreciated over the useful life obtained. Conversely, routine maintenance costs that only keep the asset in proper operating condition are considered operating expenses. This classification decision requires in-depth analysis to avoid misrecording that could distort financial statements (Lee & Kim, 2024).

Refurbishment costs are not only related to direct costs such as the purchase of spare parts, technical service fees, and installation costs, but also include indirect costs such as planning, testing, and project supervision. In addition, costs incurred due to temporary cessation of operations for refurbishment must also be taken into account, as they have the potential to affect the entity's productivity and revenue.

Comprehensive measurement and recording of cost aspects can provide a more realistic picture of the total refurbishment costs (Barbereau, 2023). One of the challenges in managing asset refurbishment costs is determining the boundary between costs that should be capitalised and those that should be charged as operating expenses.

Regulations and accounting standards provide guidelines based on materiality and long-term benefits. However, in practice, this line can sometimes be blurred, requiring appropriate internal policies and professional judgement to ensure transparent and accurate cost management (Ministry of Finance of the Republic of Indonesia, 2025).

Effective cost management in asset renewal also helps optimise budget utilisation. By understanding the classification of costs and their respective functions, entities can plan financing in a more targeted manner, prioritise renewal projects that provide the best return on investment, and avoid waste or unnecessary expenditure. This also has an impact on the overall efficiency of asset management and increases the economic value of the entity (Prawira, 2021).

In addition, renewal cost planning must consider the expected benefit period of the renewal. The costs incurred should reflect a measurable increase in the useful life or capacity of the asset. Thus, renewed assets can bring clear added value to long-term operations and financial performance. A mismatch between costs and benefits can have a negative impact on cash flow and profitability (Prameswari & Santoso, 2024).

Asset renewal costs must also be assessed from the perspective of risk and uncertainty. For example, the risk of unexpected critical damage or rapid technological changes can affect the effectiveness of the costs incurred. Therefore, investment decisions in asset renewal need to be supported by comprehensive risk analysis and strict cost control to minimise losses and ensure that the investment value remains optimal (Sari & Setyawan, 2022).

Understanding the details of the cost components in asset renewal is also very important. Some of the components include the cost of procuring materials, technical labour wages, third-party service costs, transportation, taxes, and other additional costs directly related to the implementation of the renewal. Each of these components must be accurately recorded and their contribution to the overall cost analysed so that budgeting and financial reporting are transparent and accountable (Fang & Wang, 2025).

In the context of government or public institution asset renewal, cost management is also influenced by fiscal regulations and strict guidelines for the procurement of goods and services. This requires complete documentation, auditability, and compliance with applicable regulations to avoid budget misuse.

Therefore, the cost aspect is not only a technical accounting issue but also a matter of governance and public transparency (Wijayanti et al., 2021). Furthermore, in the business world, low-cost but high-quality asset renewal costs can be a competitive advantage. Companies that are able to manage renewal costs efficiently will have a healthier financial position and the ability to invest in other projects. Conversely, uncontrolled costs can erode profit margins and hinder business growth. Therefore, cost management is an integral part of a company's asset and financial management strategy (Talenta & Nasution, 2020).

Renewal cost planning must also take into account the asset life cycle and optimal preventive maintenance schedules. By integrating renewal into the asset management cycle, large costs can be avoided by performing more efficient periodic maintenance so that major repairs can be minimised. This approach not only reduces total costs but also maximises asset performance and prevents costly downtime (Amelia & Juniarto, 2023).

Measuring the effectiveness of refurbishment expenditure also requires clear performance indicators. For example, comparing the costs incurred with increased productivity or reduced asset failure frequency can be a measure of success.

With measurable indicators, management can conduct periodic evaluations and adjustments to the refurbishment cost management strategy to achieve optimal results (State Asset Management Agency, 2020). From an accounting perspective, capitalised refurbishment costs will affect the carrying value of fixed assets in the balance sheet and the depreciation period.

Therefore, accurate recording is essential to ensure that financial statements reflect the actual condition of assets. Errors in recording can impact asset valuation and subsequent investment decisions (Rambe & Tomi, 2022). Furthermore, internal controls over renewal cost expenditures must be implemented to prevent irregularities and inefficiencies. Budget review mechanisms, transaction approvals, and internal audits are important in maintaining the accuracy and integrity of cost management. This is even more important in large entities or those involving public funds (Susanto & Siregar, 2020).

In addition, asset renewal costs can also be linked to sustainability and energy efficiency aspects. The use of new technology in refurbishment often requires higher initial costs, but provides long-term benefits in the form of energy savings and reduced environmental impact. Therefore, cost aspects must be analysed not only from a financial perspective, but also from a social and environmental perspective (Putri & Dharmawan, 2023).

Finally, managing the cost aspect of asset renewal is a complex and multidimensional process. The success of this cost management is highly dependent on coordination between the finance, engineering, and risk management functions. In addition, the involvement of all stakeholders in planning, implementation, and evaluation is key to achieving the goals of sustainable and cost-efficient asset renewal.

Financial Regulations related to Asset Rejuvenation

Financial regulations play a central role in directing and controlling every aspect of asset renewal throughout organisations, both in the public and private sectors. These regulations establish the legal basis, recording procedures, and reporting requirements that every entity must comply with when carrying out renewal activities. Clear financial regulations are essential to ensure that all expenses incurred are fully accountable in a transparent and accountable manner, as well as to minimise the possibility of manipulation or misclassification of expenses (Kusumastuti et al., 2023).

In Indonesia, various regulations govern the financial treatment of fixed assets, including refurbishment, such as Government Accounting Standards (SAP), Financial Accounting Standards (SAK), and more specific minister of finance regulations. SAP and SAK provide guidance on the classification, recognition, measurement, and presentation of fixed assets and the treatment of refurbishment costs. In addition, derivative regulations such as Minister of Finance regulations and internal guidelines are very important in organisational practice (Jaya & Herawati, 2021).

One key aspect of financial regulations is determining when an asset refurbishment expenditure is categorised as capitalisation or as an expense in the financial statements. These regulations emphasise that only costs that provide long-term economic benefits can be capitalised and recorded as part of the asset's book value, while routine repairs must be immediately recognised as expenses for the current period. This affirmation aims to maintain the reliability and honesty of financial information in an entity's financial statements (Arianti, 2020). In addition to accounting standards, fiscal regulations also determine the eligibility of renewal expenses to receive certain treatment in taxation. In some cases, tax regulations provide incentives or special treatment for entities that carry out asset renewals that are considered important for the public or the environment. These rules also regulate the useful life of assets, depreciation or amortisation of refurbishment costs, and the supporting documentation that must be available for tax audit purposes (Pradipta & Marina, 2022).

In the public sector, asset refurbishment must follow the budgeting process and the preparation of medium-term and annual work plans in accordance with applicable laws and regulations.

Every expenditure, including those allocated for renewal, requires approval from the relevant authority or unit and must be fully documented. This regulation serves as a control tool as well as a reporting tool for the public regarding the use of funds sourced from public taxes (Intan & Suparno, 2025). Various regulations also govern the mechanisms for implementing and procuring goods and services for asset renewal activities.

The principles of good governance, such as transparency, efficiency, effectiveness, and accountability, must be maintained at every stage of the procurement process. In addition to reducing the risk of corruption, the implementation of these regulations will improve the quality of refurbishment results and provide legal protection for all parties involved in financial transactions (Gao et al., 2023).

The presentation of financial reports on asset renewal costs is strictly regulated to reflect the actual financial position and operating results. Every expenditure must be recorded in accordance with applicable standards, supported by adequate supporting documents, and traceable in both internal and external audit processes. If irregularities or non-compliance are found, there are administrative and even criminal sanctions mechanisms to enforce regulatory discipline (Zhang et al., 2025).

Financial regulations also determine the depreciation treatment of refurbished assets. When the book value of an asset is updated through capitalisation of costs, the entity is required to recalculate the useful life and depreciation expense prospectively. In other words, regulations ensure that the economic value obtained from refurbishment is fairly reflected in the financial statements during the new useful life (Zhong et al., 2025).

Policy revisions or regulatory updates are often made in response to technological developments, changes in organisational needs, or new discoveries in accounting and auditing practices. This demonstrates the importance of organisational adaptation to regulatory dynamics so that refurbishment activities always comply with the latest rules. Failure to comply with the latest regulations can result in reporting errors, tax penalties, or even financial losses (Chen et al., 2025).

The role of regulators, such as the Financial Audit Agency (BPK), the Inspectorate, or independent auditors, is crucial in assessing the level of compliance with financial regulations.

Any asset renewal process that does not meet regulatory requirements may be considered invalid or financially irresponsible. As a result, the reputation of the organisation and the credibility of its financial managers may be threatened if management does not comply with the rules (Pratama & Wibowo, 2023). One of the significant challenges in implementing regulations is the awareness and competence of human resources managing assets.

A lack of understanding of the substance, objectives, and procedures of regulations can result in errors in recording and reporting renewal costs. Therefore, training, socialisation, and strengthening of the monitoring system need to be carried out continuously so that all elements of the organisation understand and implement financial regulations correctly and consistently (Lee & Kim, 2024).

Good financial regulations should ideally function not only as a 'control tool' but also as an instrument to support asset renewal strategies. This means that clear, adaptive, and constructive regulations ensure financial flexibility and motivate organisations to make sustainable investments for long-term asset performance.

It is in this aspect that the role of regulators and policymakers is tested in designing future-oriented regulations (Barbereau, 2023). The implementation of strict regulations must also be balanced with ease of reporting and administration. Today's digital-based financial information systems support the process of planning, recording, and reporting asset renewal costs more effectively and in real-time.

The implementation of e-budgeting and e-auditing is a step forward in increasing transparency, speeding up recording, and detecting potential irregularities at an early stage (Prawira, 2021).

Thus, financial regulations related to asset renewal serve as a foundation that maintains the integrity, efficiency, and accountability of every step of asset management, particularly in terms of cost utilisation. These regulations not only provide legal certainty but also build administrative and strategic systems that support the sustainable growth of the organisation. With adequate understanding, implementation, and supervision of the regulations, asset renewal practices can run optimally, relatively free from legal risks and creating long-term added value for all parties involved.

Conclusion

The cost aspect of asset renewal and financial regulations emphasises that managing renewal costs is a vital factor in maintaining asset sustainability and performance. Appropriate cost allocation, based on accounting classifications between capitalised and operational costs, is key to reflecting accurate financial conditions and supporting strategic decision-making. The efficiency and effectiveness of renewal cost management not only impacts the financial health of an entity, but also affects the lifespan of assets and long-term operational capabilities.

Financial regulations play a fundamental role in directing and controlling every aspect of asset renewal costs to ensure transparency, accountability, and compliance with applicable standards. Accounting standards, fiscal policies, and rules for the procurement of goods and services provide a framework that regulates when and how renewal costs should be recognised and reported.

Compliance with these regulations is essential to prevent irregularities, improve governance, and provide legal protection for entities and stakeholders. Overall, harmonisation between cost management and financial regulatory compliance is the cornerstone of sustainable and optimal asset management.

Organisations that are able to effectively integrate these two aspects will have better competitiveness, minimise financial risks, and support the achievement of long-term strategic goals. Therefore, a deep understanding and consistent implementation of cost and regulatory aspects are a must in modern asset renewal practices.

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