

Assurance Services Financial Reporting Landscape – What's on the Horizon

13 March 2008



Outline of Presentation

- Newly issued accounting standards – Indonesian GAAP
- In the pipeline
- IFRS update
- Plan to fully adopt IAS/IFRS

Accounting Standards effective in 2008 - 2009

Effective in 2008

- PSAK 13 (Revised 2007) – Investment Property
- PSAK 16 (Revised 2007) – Fixed Assets
- PSAK 30 (Revised 2007) – Leases

Effective in 2009

- PSAK 50 (Revised 2006) - Financial Instruments : Presentation and Disclosures
- PSAK 55 (Revised 2006) – Financial Instruments: Recognition and Measurement

PSAK 16 (revised 2007) – Fixed Assets

Some of the changes:

- Components of costs
 - Includes costs of dismantling where the entity has an obligation
- Depreciation:
 - Use “Component Approach” in depreciating a fixed asset
 - Depreciation method, residual value and useful life reviewed at least at each financial year-end
- Revaluations
 - Allowable alternative to the historical cost model
 - Revaluations conducted with sufficient regularity
 - Apply revaluations to the entire class of asset
 - Impact: to equity or to P/L

Some of the Changes:

- In an exchange involving non-monetary assets:
 - Cost of asset acquired --> FV of asset received
 - Certain exceptions
 - If asset acquired is not measured at FV --> cost is carrying amount of asset given up
- Specific transitional rules
- Effective date: 1 January 2008

PSAK 13 (revised 2007) – Investment Property

Definition

- Property (land or a building - or part of a building - or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both

Measurement and Disclosures

Initial measurement – at cost

Subsequent measurement

- Fair value
 - presumption that Fair Value can be determined
 - gains/losses to Income Statement **OR**
- Cost less depreciation (fair values disclosed)

Disclosures – significantly added

Transitional rules

Effective date – 1 January 2008

PSAK 30 (revised 2007) - Leases

Definition

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period

Finance lease

Operating lease

Finance vs. Operating lease

Finance Lease

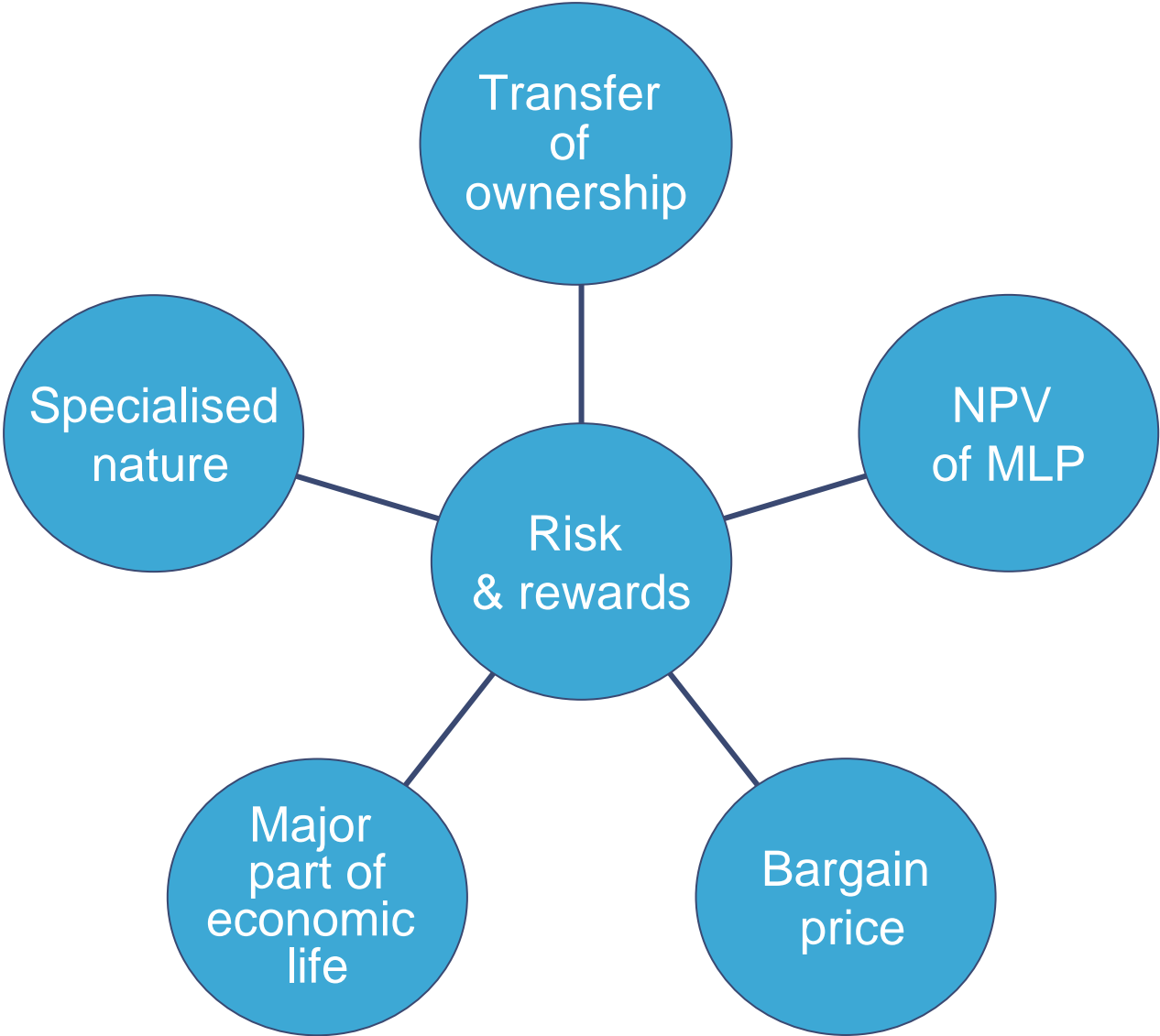
A lease is a finance lease if it **transfers** substantially all the risks and rewards incident to ownership

Operating Lease

A lease is an operating lease if it **does not transfer** substantially all the risks and rewards incident to ownership



Finance lease



Lease accounting summary

Lease type	Balance Sheet	Income Statement
Finance- Lessee	Asset Lease obligation Accumulated depreciation Reduction in lease obligation	Finance charge Depreciation expenses
Finance – Lessor	Receivable Reduction in receivable	Finance income
Operating – Lessee	Off balance sheet	Rental expense
Operating – Lessor	Asset Accumulated depreciation	Rental income Depreciation expense

Sale and leaseback

Sale of asset by the vendor followed by leasing of the same asset to the vendor

Finance Lease

Operating Lease

Sales proceeds 100

Carrying amount (80)

20

Defer and amortise over lease term

Sales price = FV
→ Recognise any profit or loss immediately

Sales price < FV
→ Recognise profit or loss immediately
→ If loss compensated by lower future lease payments at below market price defer and amortise it in proportion to the lease payments

Sales price > FV
→ Defer and amortise excess over period of asset use

PSAK 50 and 55 (revised 2006) on Financial Instruments

What is derivative?

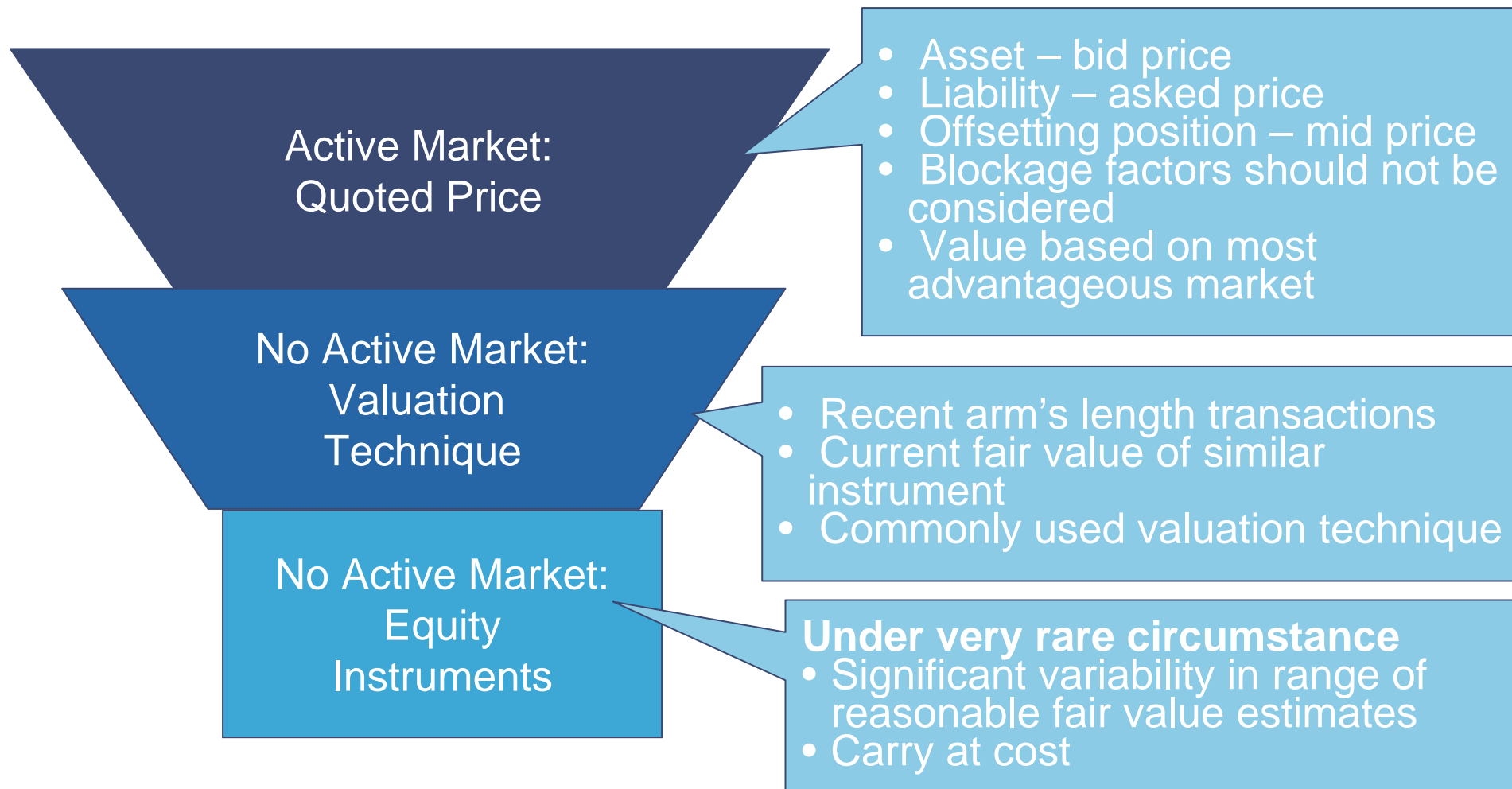
Standalone or Embedded

- value changes in response to an underlying
- requires no or little initial net investment
- settled at a future date

How is a derivative measured?

- on balance sheet at fair value
- changes in fair value -> in the income statement (exception: hedge accounting)

Determining fair value



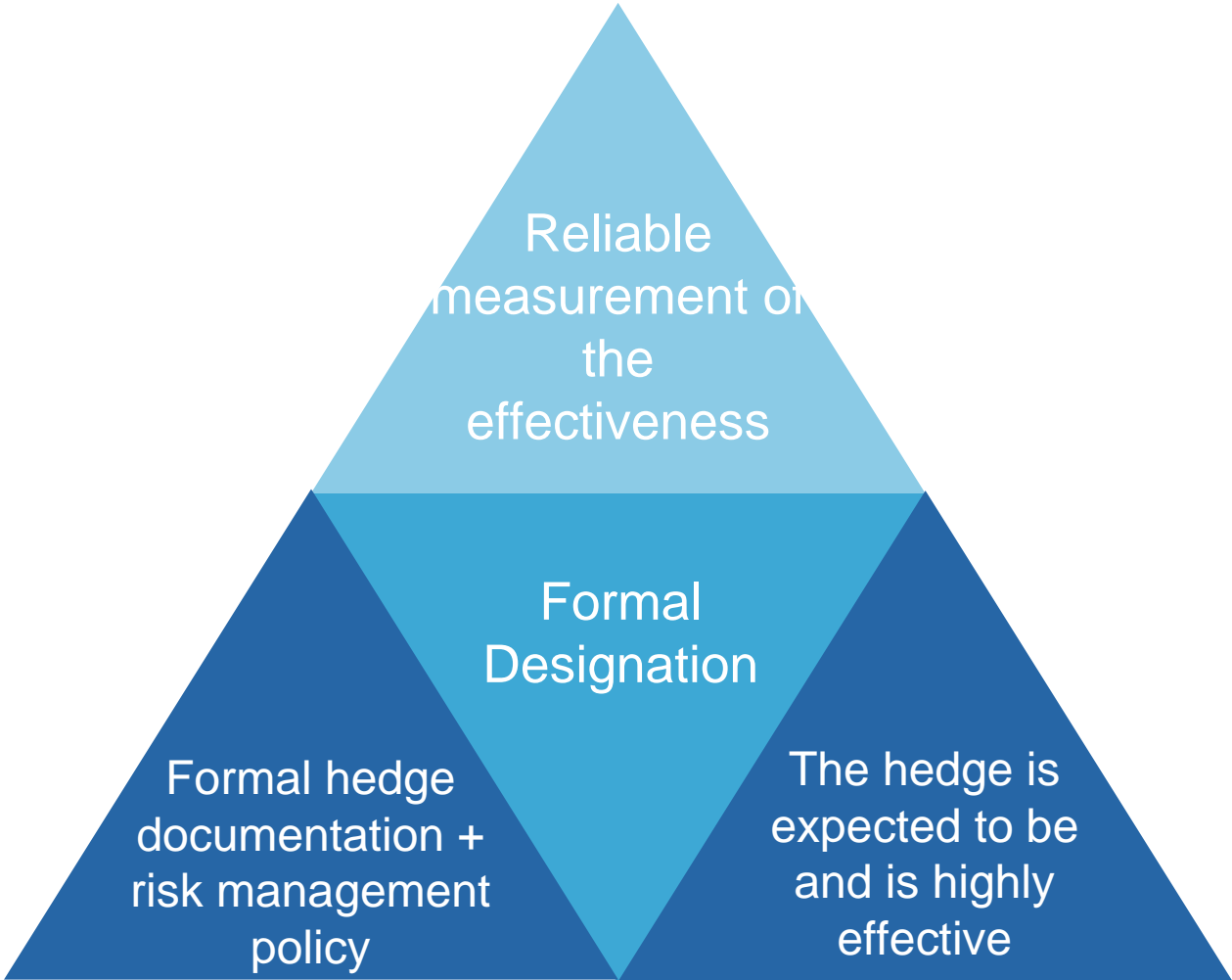
What are embedded derivatives?

Hybrid instrument =

The combination of a “Host contract” and an “Embedded derivative”

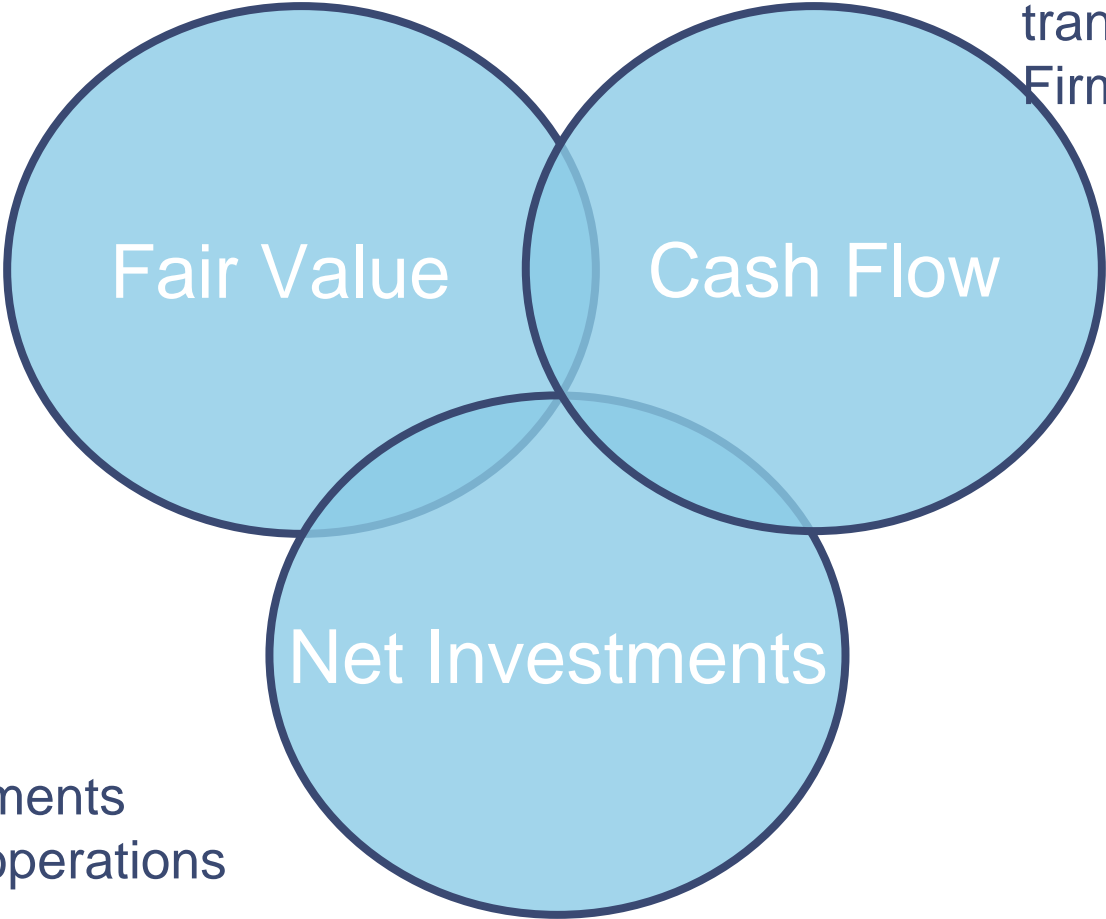
Entities should not be able to avoid recognition and measurement merely by embedding a derivative in a non-derivative financial instrument or other contract

Hedge accounting → allows matching of income statement effect



Different types of hedges

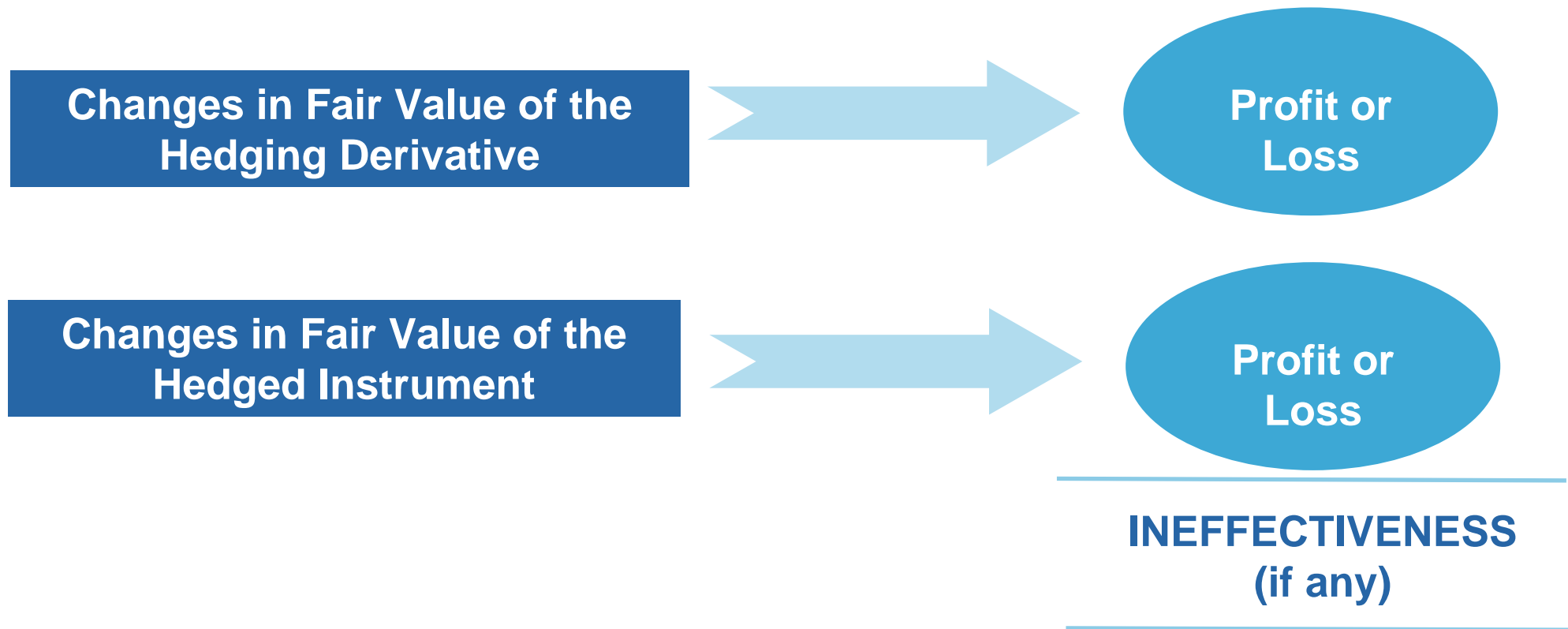
Fixed rate
assets/liabilities
Assets/liabilities
in foreign
currencies
Firm commitments



Variable rate
assets/liabilities
Highly probable
forecasted
transactions
Firm commitments

Net investments
in foreign operations

Accounting for a Fair Value hedge



Accounting for a Cash Flow hedge

Instrument	Accounting Treatment
Hedged Item (e.g. anticipated sale in foreign currency)	Not yet recognised in accounts: <ul style="list-style-type: none">▪ no entry
Hedging Instrument (e.g. FX forward)	<ul style="list-style-type: none">▪ Fair value on balance sheet▪ Fair value movements in equity, subsequently recycled to income statement

Accounting for Net Investments in foreign operations

- Similar to a cash flow hedge, gains and losses on the hedging instrument are deferred in equity
- Subsequently -> in the income statement upon disposal or sale of the foreign operation.

Disclosures

A lot to disclose!

Indonesian GAAP - in the pipeline

IAS/IFRS currently considered for adoption (2008)

- **IFRS 2 Share-based payments**
- **IFRS 4 Insurance contracts**
- **IFRS 5 Non-current assets held for sale and discontinued operations**
- **IFRS 6 Exploration for and evaluation of mineral resources**
- **IFRS 7 Financial instruments: disclosures**
- **IFRS 8 Segment reporting**
- **IAS 1 Presentation of financial statements**
- **IAS 2 Inventories**
- **IAS 8 Accounting policies, changes in accounting estimates and errors**
- **IAS 10 Events after balance sheet date**
- **IAS 23 Borrowing costs**
- **IAS 27 Consolidated and separate financial statements**
- **IAS 28 Investments in associates**

IAS/IFRS – recently issued

- IFRS 8 – Operating Segments (issued in November 2006)
- Revised IAS 23 – Borrowing Costs (issued in March 2007)
- Revised IAS 1 – Presentation of Financial Statements (issued in Sept 2007)
- Revised IFRS 3 – Business Combinations – phase II (issued in Jan 2008)
- Amended version of IAS 27 – Consolidated and Separate Financial Statements (issued in January 2008)
- Amendment to IFRS 2 – Share-based Payment (issued in January 2008)
- Amendment to IAS 32 Financial Instruments and IAS 1 Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation (issued in February 2008)

IFRIC – recently issued

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions (issued in November 2006)
- IFRIC 12 – Service Concession Arrangements (issued in November 2006)
- IFRIC 13 – Customer Loyalty Programmes (issued in June 2007)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (issued in July 2007)

Convergence between IFRS and US GAAP

- 15 November 2007: SEC decided to allow IFRS financial statements from foreign private issuers in the US to be accepted without reconciliation to US GAAP
- Being considered – the same option for US domestic issuers

Full adoption of IFRS in Indonesia

- Lately most PSAKs are already based on IFRS
- Timetable:
 - Now – 2010: adoption of remaining IFRSs
 - 2011: preparation of infrastructure required to support IFRS implementation
 - 2012: IFRS-based standards applicable for certain companies (i.e. those with public accountability)

Thank you