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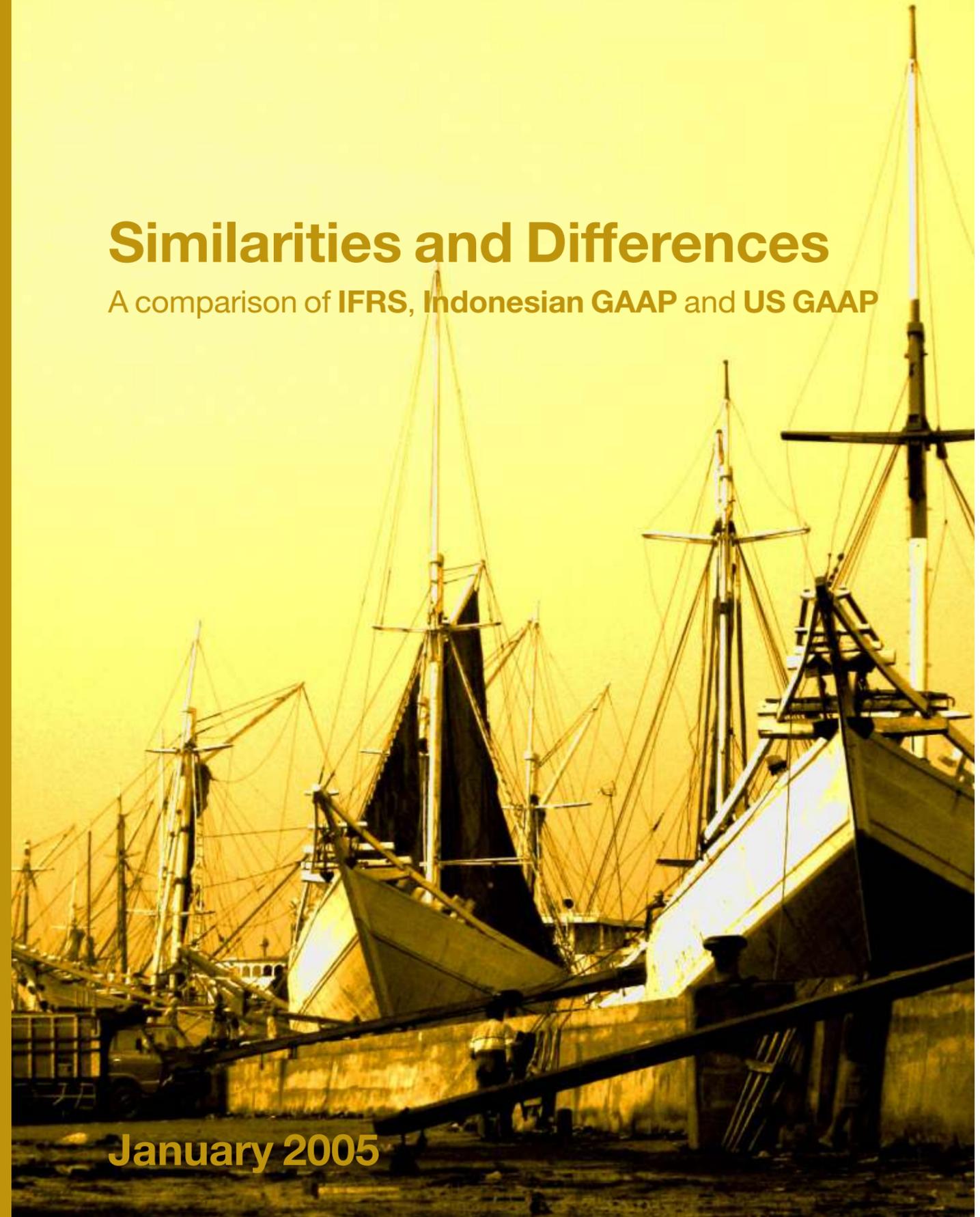
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Similarities and Differences

A comparison of IFRS, Indonesian GAAP and US GAAP

January 2005



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A comparison of IFRS, Indonesian GAAP and US GAAP

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Preface



Since 1994 the accounting profession in Indonesia, through the Indonesian Institute of Accountants, has committed to harmonizing the Indonesian accounting standards (called the “PSAK” or “Indonesian GAAP”) with the International Financial Reporting Standards/the International Accounting Standards (“IFRS/IAS”). Consequently there are many PSAK issued by the Indonesian Institute of Accountants that are based on the existing IFRS/IAS.

In 2004, the Indonesian accounting profession took one more significant step toward convergence with IFRS by launching a program, expected to be finalised in 2008, to eliminate the differences between PSAK and IFRS/IAS. Once this stage is completed, the Indonesian Institute of Accountants will decide whether it will, going forward, fully adopt IFRS/IAS.

This publication is intended as a tool to identify key similarities and differences between IFRS/IAS, Indonesian GAAP and US GAAP. It is not meant to provide a detailed comprehensive comparison amongst the three sets of accounting principles. This will be a living document, one which will be updated from time to time to reflect changes in each reporting regime.

Hopefully this publication will be useful for our clients, our staff and public in general, whether based in or outside of Indonesia.

Kind regards,



Haryanto Sahari
Country Senior Partner
PricewaterhouseCoopers

Introduction

This publication by KAP Haryanto Sahari & Rekan (PricewaterhouseCoopers) is for those who wish to gain a broad understanding of the key similarities and differences between International Financial Reporting Standards (**IFRS**), Indonesian Generally Accepted Accounting Principles (**Indonesian GAAP**) and US Generally Accepted Accounting Principles (**US GAAP**). The first section provides a summary of the similarities and differences and then refers to individual sections where key divergences are highlighted and the likely impact of recent proposals explained.

No summary publication can, of course, do justice to the many differences of detail which exist between International Financial Reporting Standards and those in Indonesia and USA. We have, in particular, focused on the differences most commonly found in practice; detailed rules may apply very differently in the case of specific transactions. When applying the individual accounting frameworks, readers must consult all the relevant accounting standards and, where applicable, their national law. Listed companies must also follow relevant securities regulations, such as the Indonesian Capital Market Supervisory Board (BAPEPAM) requirements or the US Securities and Exchange Commission requirements.

International harmonisation of accounting is a current issue. This publication demonstrates that although progress is being made towards comparability between the underlying principles of **IFRS**, **Indonesian GAAP** and **US GAAP**, important differences remain to be addressed. This publication takes account of authoritative pronouncements issued under **IFRS** and **US GAAP** up to June 2004. For **Indonesian GAAP** pronouncements taken into account are those issued up to December 2004.

Similarities and Differences - A Comparison of IFRS, Indonesian GAAP and US GAAP is designed for the information of readers. While every effort has been made to ensure accuracy, this publication is not comprehensive and information may have been omitted which may be relevant to a particular user. In particular, this publication is not intended as a study of all aspects of accounting practice under **IFRS**, **Indonesian GAAP** and **US GAAP**, nor as a substitute for reading the local accounting standards and other official pronouncements when dealing with specific issues. No responsibility for loss to any person acting or refraining from acting as a result of any material in this publication can be accepted by KAP Haryanto Sahari & Rekan (PricewaterhouseCoopers). Recipients should not act on the basis of this publication without seeking professional advice.

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Summary of similarities and differences

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Accounting framework				
Historical cost	Uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued. Derivatives, biological assets and most securities must be revalued.	Similar to IFRS . However, revaluations are more restricted to certain items such as PPE, derivatives and certain types of investments in securities. Presently there is no specific requirement to revalue biological assets.	No revaluations, except some securities and derivatives at fair value.	21
Fair presentation override	In extremely rare cases, entities should override the standards where essential to give a fair presentation.	Not explicitly mentioned in the GAAP. However, override of standards is possible although rarely exercised.	Conceptually similar to IFRS , but not used in practice.	22
First-time adoption of accounting frameworks	Requires full retrospective application of all IFRS effective at the reporting date for an entity's first IFRS financial statements with some exemptions and limited mandatory exemptions.	No specific guidance on the first-time adoption of accounting framework. However, most standards require retrospective application.	First-time adoption of US GAAP requires retrospective application. In addition, particular standards require treatment for first-time adoption of those standards.	22
Financial statements				
Components of financial statements	Two years' balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to IFRS .	Similar to IFRS , except three years required for public companies for all statements except balance sheet.	23
Balance sheet	Does not prescribe a particular format; an entity uses a liquidity presentation of assets and liabilities, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items must be presented on the face of the balance sheet.	Requires current/non-current presentation except for certain industries such as banking. Less comprehensive list of items to be presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items presented on the face of the balance sheet are generally presented in decreasing order of liquidity. Public companies must follow SEC guidelines regarding minimum disclosure requirements.	24

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Financial statements (continued)				
Income statement	Does not prescribe a standard format, although expenditure must be presented in one of two formats (function or nature). Certain items must be presented on the face of the income statement.	Similar to IFRS . However, there are differences in details of items to be presented on the face of the income statement.	Present as either a single-step or multiple-step format. Expenditure must be presented by function.	26
Exceptional items	Does not use the term, but requires separate disclosure of items that are of such size, incidence or nature that require separate disclosure to explain the performance of the entity.	Similar to IFRS .	Similar to IFRS , but individually significant items should be presented on the face of the income statement.	26
Extraordinary items	Prohibited.	Extraordinary items still need to be reported when meeting the definition. Definition of extraordinary item is similar to US GAAP .	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	27
Statement of recognised gains and losses/other comprehensive income	Present the statement of recognised gains and losses as either in notes or highlight separately in primary statement of changes in shareholder equity.	Recognised gains and losses are presented within the primary statement of changes in shareholder equity.	Disclose total comprehensive income and accumulated other comprehensive income, either as a separate primary statement or combined with income statement, or with statement of changes in stockholders' equity.	27
Statement of changes in shareholders' equity	Statement showing capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement must be presented as a primary statement.	Similar to IFRS .	Similar to IFRS . SEC rules allow such information to be included in the notes.	28

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Financial statements (continued)				
Cash flow statements – format and method	Standard headings, but limited flexibility of contents. Use direct or indirect method.	Similar to IFRS . Listed entities are required to use direct method.	Similar headings to IFRS , but more specific guidance given for items included in each category. Use direct or indirect method.	28
Cash flow statements – definition of cash and cash equivalents	Cash includes overdrafts and cash equivalents with short-term maturities (less than 3 months).	Similar to IFRS .	Cash excludes overdrafts but includes cash equivalents with short-term maturities.	29
Cash flow statements – exemptions	No exemptions.	Similar to IFRS .	Limited exemptions for certain investment entities.	28
Changes in accounting policies	Restate comparatives and prior-year opening retained earnings.	Similar to IFRS .	Include effect in current-year income statement. Disclose pro-forma comparatives. Include retrospective adjustments for specific items.	29
Correction of errors	Restate comparatives.	Similar to IFRS .	Similar to IFRS .	30
Changes in accounting estimates	Reported in income statement in the current period.	Similar to IFRS .	Similar to IFRS .	30
Consolidated financial statements				
Definition of subsidiary	Based on voting control or power to govern. The existence of currently exercisable potential voting rights also needs to be taken into consideration.	Definition is similar to IFRS . However, no explicit requirement to consider currently exercisable potential voting rights.	Controlling interest through majority ownership of voting shares or by contract. Consolidate variable interest entities (VIEs) in which a parent does not have voting control but absorbs the majority of losses or returns.	31
Special purposes entities (SPEs)	Consolidate where the substance of the relationship indicates control.	Similar to IFRS .	Consolidate SPEs if consolidation requirements for VIEs are met. To avoid consolidation, the SPE must be a qualifying SPE.	31

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Consolidated financial statements (continued)				
Non-consolidation of subsidiaries	Dissimilar activities or temporary control are not a justification for non-consolidation.	Subsidiaries are not consolidated if control is temporary (short term) or if there are long-term restrictions to transfer funds to the parent. Dissimilar activities are not a justification for non-consolidation.	Only if control does not rest with the majority owner and the owner is not the primary beneficiary of a VIE.	32
Definition of associate	Based on significant influence: presumed if 20% interest or participation in entity's affairs.	Similar to IFRS .	Similar to IFRS .	33
Presentation of associate results	Use equity method. Show share of post-tax result.	Does not specifically require showing share of post-tax result.	Similar to IFRS .	33
Disclosures about significant associates	Give detailed information on significant associates' assets, liabilities, revenue and results.	Less disclosure compared to IFRS . Information on significant associates' assets, liabilities, revenue and results not required.	Similar to IFRS .	33
Presentation of joint ventures	Both proportional consolidation and equity method permitted.	Current guidance only covers Jointly Controlled Operations and Jointly Controlled Assets and is comparable to IFRS . However, for Jointly Controlled Entity, IFRS approach is acceptable.	Equity method is required except in specific circumstances.	35
Business combinations				
Types	All business combinations are acquisitions.	Most business combinations are acquisitions. Pooling of interests still allowed if certain criteria are met.	Similar to IFRS .	39

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Business combinations (continued)				
Purchase method – fair values on acquisition	Fair value the assets, liabilities and contingent liabilities of acquired entity. Only recognise liabilities for restructuring activities when the acquiree has an existing liability at acquisition date. Prohibited from recognising liabilities for further losses or other costs expected to be incurred as a result of the business combinations.	Similar to IFRS . Similar to IFRS .	Similar to IFRS , but specific rules for acquired in-process research and development (generally expensed) and contingent liabilities. Some restructuring liabilities relating solely to the acquired entity may be recognised in fair value exercise if specific criteria about restructuring plans are met.	39
Purchase method – contingent consideration	Include in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Similar to IFRS .	Not recognised until the contingency is resolved or the amount is determinable.	40
Purchase method – minority interests at acquisition	State at minority's proportion of the net fair value of acquired identifiable assets, liabilities and contingent liabilities.	Similar to US GAAP , generally state at share of pre-acquisition carrying value of net assets.	Generally state at share of pre-acquisition carrying value of net assets.	41
Purchase method – goodwill and intangible assets with indefinite useful lives	Capitalise but do not amortise. Review goodwill and indefinite-lived intangible assets for impairment at least annually at the cash-generating unit level.	Goodwill is amortised over its useful life, normally not longer than 5 years, unless a longer period of not exceeding 20 years can be justified.	Similar to IFRS ; however, impairment measurement model is different.	42
Purchase method – negative goodwill	Acquirer to reassess the identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities. Any excess remaining after that reassessment is recognised in income statement immediately.	Reduce proportionally the fair value assigned to non-monetary assets, record any remaining excess as deferred income and recognise as income over a period of not less than 20 years.	Reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	43

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Business combinations (continued)				
Purchase method – subsequent adjustments to fair values	Fair values can be adjusted against goodwill within 12 months of the acquisition date. Record subsequent adjustments in income statement unless they are to correct an error.	Fair values can be corrected against goodwill up to the end of the year after acquisition, if additional evidence of values becomes available. Record subsequent adjustments in income statement unless they are to correct an error.	Similar to IFRS . Once the fair value allocation is finalised, no further changes are permitted except for the resolution of known pre-acquisition contingencies. Record against goodwill the adjustments made during the allocation period relating to data for which management was waiting to complete the allocation.	43
Purchase method – disclosure	Disclosures include names and descriptions of combining entities, date of acquisition, cost of combination, summary of fair values and pre-acquisition IFRS values of assets and liabilities acquired, and impact on results and financial position of acquirer.	Disclosures include names and descriptions of the combining entities, method of accounting for acquisition, date of acquisition and any operations resulting from the business combination which the entity has decided to dispose off.	Similar to IFRS , with additional disclosures regarding the reasons for the acquisition and details of allocations.	44
Uniting of interests method	Prohibited.	Still allowed when it is difficult to identify the acquirer and if meeting certain criteria.	Similar to IFRS .	46
Revenue recognition				
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards have been transferred and the revenue can be measured reliably.	Criteria are similar to IFRS . However, there are less detailed guidance and examples for specific transactions.	Four key criteria. In principle, similar to IFRS . Extensive detailed guidance exists for specific transactions.	49
Construction contracts	Accounted for using the percentage of completion method. Completed contract method prohibited.	Similar to IFRS .	Percentage of completion method is preferable; however, completed contract method permitted in rare circumstances.	52

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Expense recognition				
Interest expense	Interest expense recognised on an accrual basis. Effective yield method used to amortise non-cash finance charges.	Similar to IFRS .	Similar to IFRS .	55
Employee benefits – pension costs – defined benefit plans	Use projected unit credit method to determine benefit obligation.	Similar to IFRS .	Similar to IFRS conceptually, although several differences in detail.	56
Employee share compensation	Recognise expense for services acquired. The corresponding amount will be recorded either as a liability or as an increase in equity, depending on whether the transaction is determined to be cash- or equity-settled. The amount to be recorded is measured at the fair value of the shares or share options granted.	Basically all share-based compensation measured at fair value.	Two alternative methods for determining cost: intrinsic value (market price at measurement date less any employee contribution or exercise price) or fair value at issue using option pricing model. Recognise cost of share awards or options over period of employee's performance.	59
Termination benefits	Account for post-retirement benefits as pensions. Rules also given for termination benefits arising from redundancies and other post-employment and long-term employee benefits. Account for termination indemnity plans as pensions.	Similar to IFRS .	Similar to IFRS for post-retirement benefits. More detailed guidance given for termination benefits. Termination indemnity accounted for as pension plans and calculated as either the vested benefit obligation or the actuarial present value of the vested benefits.	61
Assets				
Acquired intangible assets	Capitalise if recognition criteria are met; intangible assets must be amortised over useful life. Intangibles assigned an indefinite useful life must not be amortised but reviewed annually for impairment. Revaluations are permitted in rare circumstances.	Similar to IFRS , except that useful life of an intangible asset is always finite. Revaluations are not permitted.	Capitalise purchased intangible assets, amortise over useful life and review for impairment. Intangibles assigned an indefinite useful life must be not be amortised but reviewed for impairment annually. Revaluations are not permitted.	63

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Assets (continued)				
Internally generated intangible assets	Expense research costs as incurred. Capitalise and amortise development costs only if stringent criteria are met.	Similar to IFRS .	Expense both research and development costs as incurred. Some software and website development costs must be capitalised.	63
Property, plant and equipment	Use historical cost or revalued amounts. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Use historical cost. Revaluation is generally not permitted unless allowed by government regulation. Current proposal is similar to IFRS .	Revaluations not permitted.	66
Non-current assets held for sale	Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.	No specific guidance.	Similar to IFRS .	69
Leases – classification	A lease is a finance lease if substantially all risks and rewards of ownership are transferred. Substance rather than form is important.	Finance lease if certain criteria, which are more form-driven requirements, are met.	Similar to IFRS , but with more extensive form-driven requirements.	70
Leases – lessor accounting	Record amounts due under finance leases as a receivable. Allocate gross earnings to give constant rate of return based on (pre-tax) net investment method.	Similar to IFRS .	Similar to IFRS , but with specific rules for leveraged leases.	71

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Assets (continued)				
Impairment of assets	If impairment indicated, write down assets to higher of net selling price and value in use based on discounted cash flows. If no loss arises, reconsider useful lives of those assets. Reversals of losses permitted in certain circumstances.	Similar to IFRS except the requirement to reconsider useful lives when no loss arises is not specified.	Impairment is assessed on undiscounted cash flows for assets to be held and used. If less than carrying amount, measure impairment loss using market value or discounted cash flows. Reversals of losses prohibited. For assets held for disposal, impairment is based on lower of carrying amount and fair value less cost to sell.	72
Capitalisation of borrowing costs	Permitted, but not required, for qualifying assets.	Required for qualifying assets.	Required.	73
Investment property	Measure at depreciated cost or fair value and recognise changes in fair value in the income statement.	Usually classified as part of long-term investments. Measured at cost but not depreciated.	Treat the same as for other properties (depreciated cost).	74
Inventories	Carry at lower of cost and net realisable value. Use FIFO or weighted average method to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to IFRS except LIFO method may still be used.	Similar to IFRS ; however, use of LIFO permitted. Reversal of write-down is prohibited.	75
Biological assets	Measured at fair value less estimated point-of-sale costs.	Not specified. Generally historical cost used. Current proposal is similar to IFRS .	Not specified. Generally historical cost used.	76

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Liabilities				
Financial assets – measurement	Depends on classification of investment – if held to maturity or loan or receivable, then carry at amortised cost, otherwise at fair value. Unrealised gains/losses on fair value through profit or loss classification (including trading securities) recognised in the income statement and on available-for-sale investments recognised in equity.	Similar to IFRS .	Similar to IFRS ; however, no ability to designate any financial asset or liability as at fair value through profit or loss.	77
Derecognition of financial assets	Derecognise financial assets based on risks and rewards first; control is secondary test.	No general guidance for derecognition of financial assets in general (except for some financial assets. For example, those arising from factoring). However, IFRS approach is acceptable.	Derecognise based on control. Legal isolation of assets even in bankruptcy is necessary for derecognition.	81
Provisions – general	Record the provisions relating to present obligations from past events if outflow of resources is probable and can be reliably estimated.	Similar to IFRS .	Similar to IFRS , with rules for specific situations (employee termination costs, environmental liabilities, loss contingencies, etc.).	83
Provisions – restructuring	Recognise restructuring provisions if detailed formal plan announced or implementation effectively begun.	Similar to IFRS .	Recognition of a liability based solely on commitment to a plan is prohibited. Must meet the definition of a liability, including certain criteria regarding the likelihood that no changes will be made to the plan or that the plan will be withdrawn.	84
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to IFRS .	Similar to IFRS .	85

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Liabilities (continued)				
Deferred income taxes – general approach	Use full provision method (some exceptions) driven by balance sheet temporary differences. Recognise deferred tax assets if recovery is probable.	Similar to IFRS .	Similar to IFRS , but recognise all deferred tax assets and then provide valuation allowance if recovery is less than 50% likely. A number of specific differences in application.	86
Deferred income taxes – main exceptions	No temporary differences on non-deductible goodwill and initial recognition of assets and liabilities that do not impact on accounting or taxable profit.	Similar to IFRS .	Similar to IFRS regarding non-deductible goodwill. Initial recognition exemption does not exist.	86
Government grants	Recognise as deferred income and amortise. Entities may offset capital grants against asset values.	No specific guidance.	Similar to IFRS except long-lived asset contributions recorded as revenue.	90
Leases – lessee accounting	Record finance leases as asset and obligation for future rentals. Depreciate over useful life of asset. Apportion rental payments to give constant interest rate on outstanding obligation. Charge operating lease rentals on straight-line basis.	Broadly similar to IFRS . However, there are some differences in determining the amount of obligation and interest rate.	Similar to IFRS . Specific rules must be met to record a finance or capital lease.	90
Leases – lessee accounting: sale and leaseback transactions	For a finance lease, defer and amortise profit arising on sale and finance leaseback. If an operating lease arises, profit recognition depends on sale proceeds compared to fair value of the asset. Consider substance/linkage of the transactions.	Similar to IFRS , i.e. defer and amortise profit.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Immediately recognise losses. Consider specific strict criteria if a property transaction.	91

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Liabilities (continued)				
Financial liabilities – classification	Classify capital instruments depending on substance of the issuer's obligations.	Broadly similar to IFRS ; however, guidance is less comprehensive.	Where an instrument is not a share, classify as liability when obligation to transfer economic benefit exists.	93
	Mandatorily redeemable preference shares classified as liabilities.	No guidance for mandatorily redeemable preference shares.	Similar to IFRS .	
Convertible debt	Account for convertible debt on split basis, allocating proceeds between equity and debt.	Convertible debt is usually recognised as a liability.	Convertible debt is usually recognised as a liability.	94
Derecognition of financial liabilities	Derecognise liabilities when extinguished. The difference between the carrying amount and the amount paid is recognised in the income statement.	Generally similar to IFRS ; however, guidance is less comprehensive.	Similar to IFRS .	95
Equity				
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to IFRS .	Similar to IFRS .	97
Derivatives and hedging				
Derivatives and other financial instruments – measurement of financial instruments and hedging activities	Measure derivatives and hedge instruments at fair value; recognise changes in fair value in income statement except for effective cash flow hedges, where the changes are deferred in equity until effect of the underlying transaction is recognised in the income statement. Gains/losses from hedge instruments that are used to hedge forecast transaction may be included in cost of non-financial asset/liability (basis adjustment).	Similar to US GAAP .	Similar to IFRS , except no 'basis adjustment' on cash flow hedges of forecast transactions.	99

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Derivatives and hedging (continued)				
Derivatives and other financial instruments – measurement of hedges of foreign entity investments	Gains/losses on hedges of foreign entity investments are recognised in equity, including hedge ineffectiveness on non-derivatives. For derivatives, record hedge ineffectiveness in the income statement. Gains/losses held in equity must be transferred to the income statement on disposal of investment.	Similar to US GAAP .	Similar to IFRS , except all hedge ineffectiveness is recognised in the income statement.	102
Other accounting and reporting topics				
Functional currency definition	Currency of primary economic environment in which entity operates.	The currency mainly used in the entity's operation.	Similar to IFRS .	105
Functional currency – determination	If indicators are mixed and functional currency is not obvious, use judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).	Functional currency if meeting all the following indicators: cash flows, selling prices and costs.	Similar to IFRS ; however, no specific hierarchy of factors to consider. Generally the currency in which the majority of revenues and expenses are settled.	105
Presentation currency	When financial statements are presented in a currency other than functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or use average rates if rates do not fluctuate significantly.	The presentation currency is Indonesian Rupiah. Other currencies may be used as a presentation currency provided they meet the functional currency criteria.	Similar to IFRS .	107

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Other accounting and reporting topics (continued)				
Hyperinflationary economy – definition	Hyperinflation indicated by characteristics of economic environment of country, which include: population's attitude towards local currency and prices linked to price index; and if cumulative inflation rate over three years is approaching, or exceeds, 100%.	No specific guidance.	Currency in highly inflationary environment (three-year inflation rate of approximately 100% or more).	107
Hyperinflationary economy – measurement	Entities that have as functional currency the currency of a hyperinflationary economy must use it for measuring transactions. However, re-measurement of the measurement unit at the balance sheet date is required.	No specific guidance.	Generally does not permit inflation-adjusted financial statements; instead requires the use of a more stable currency as functional currency (usually the presentation currency). However, foreign issuers that use IFRS permitted to omit quantification of any differences that would have resulted from application of FAS 52.	107
Earnings per share – diluted	Use weighted average potential dilutive shares as denominator for diluted EPS. Use 'treasury share' method for share options/warrants.	Similar to IFRS .	Similar to IFRS .	109
Related-party transactions – definition	Determine by level of direct or indirect control, joint control and significant influence of one party over another or common control of both parties.	Similar to IFRS ; however, joint control is not specifically mentioned.	Similar to IFRS .	109

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Other accounting and reporting topics (continued)				
Related-party transactions – disclosures	Disclose name of related party, nature of relationship and types of transaction. For control relationships, give disclosures regardless of whether transactions occur. Some exemptions available for separate financial statements of subsidiaries.	Disclose name of related party, nature of relationship and types of transaction if there have been transactions between related parties. Also disclose volume of transactions, outstanding items and pricing policies. Some exemptions available, including exemption for intragroup transactions in consolidated financial statements and exemption for transactions between state-controlled entities.	Similar to IFRS .	110
Segment reporting – scope and basis of formats	Public entities: report primary and secondary (business and geographic) segments based on risks and returns and internal reporting structure.	Similar to IFRS .	Public entities: report based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.	111
Segment reporting – accounting policies	Use group accounting policies.	Similar to IFRS .	Use internal financial reporting policies (even if accounting policies differ from group accounting policy).	112
Segment reporting – disclosures	Disclosures for primary segment include revenues, results, capital expenditures, total assets and liabilities, and other items. For secondary segment, report revenues, total assets and capital expenditures.	Similar to IFRS .	Similar disclosures to IFRS (primary segment) except liabilities and geographical capital expenditures not required. Depreciation, amortisation, tax, interest and exceptional/extraordinary items disclosed if reported internally. Disclosure of factors used to identify segments is required.	112

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Other accounting and reporting topics (continued)				
Discontinued operations – definition	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.	A component of a company that is, pursuant to a single plan, will be disposed of or abandoned. That component represents a separate major line of business or geographical area of operations and can be distinguished operationally and for financial reporting purposes.	Similar to IFRS . Component that is clearly distinguishable operationally and for financial reporting can be a reporting segment, operating segment, reporting unit, subsidiary or asset grouping.	113
Discontinued operations – measurement	Measured at the lower of carrying amount or fair value less costs to sell.	Measured at carrying amounts (determined based on prevailing Indonesian GAAP) less any impairments. Make provisions for some costs if considered a restructuring and criteria for recognising a provision met.	Similar to IFRS .	114
Discontinued operations – presentation and main disclosures	Disclose at a minimum a single amount on the face of the income statement with analysis further disclosed in the notes for both current and prior periods. Assets and liabilities of a discontinued operation to be presented separately from other assets and liabilities on the balance sheet.	Give details of discontinuing operation. Disclose (on face of income statement) pre-tax gain or loss from discontinuance. Also disclose revenue, expenses, pre-tax profit, total assets, total liabilities and cash flows attributable to discontinuing operation.	Similar to IFRS . Report discontinued and held-for-sale operations as a separate line item on face of income statement before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of held-for-sale disposal groups segregated on balance sheet.	114
Post-balance-sheet events	Adjust financial statements for subsequent events, providing evidence of conditions at balance sheet date and materially affecting amounts in financial statements (adjusting events). Disclose non-adjusting events.	Similar to IFRS .	Similar to IFRS .	116

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Other accounting and reporting topics (continued)				
Interim financial reporting	Not mandatory to prepare interim statements but must use the standard if prepared. Basis should be consistent with full year statements and include comparatives.	Mandatory for listed entities and other entities as stipulated by prevailing laws and regulations. Similar to IFRS , basis should be consistent with full year statements and include comparatives.	If issued, the contents of interim statements are prescribed and basis must be consistent with full year statements. Quarterly reporting required for SEC registrants (domestic US entities only).	116
Insurance and reinsurance contracts – definition	Provides definition of insurance and reinsurance contracts.	No single definition of insurance contract. Guidance is provided of two types of insurance companies: life and loss insurance.	No single definition of insurance contract. The resulting population of insurance contracts is a subset of the IFRS classification due to stricter criteria for reinsurance. Accounting requirements for ‘universal-life-type’ insurance contracts is deposit accounting rather than deferral and matching.	118
Discretionary participation feature (DPF)	Provides definition of DPF and introduces certain requirements for financial instruments that contain such feature. Insurance contracts or financial instruments with DPF may have a compound nature and present a DPF equity component. Consideration received for financial instruments with DPF may be recognised as revenue with an expense representing the increase in the liability.	No specific guidance.	DPF not specifically covered, other than implicitly in SOP 95-1 for insurance contracts only. Insurance contracts and financial instruments with DPF are measured under existing GAAP and resulting equity component is not separately disclosed. Financial instruments with DPF are deposit accounted.	118

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Other accounting and reporting topics (continued)				
Insurance and reinsurance contract – measurement	Subject to a few minimum requirements. The most important requirements are the tests on insurance liability adequacy and reinsurance asset impairment. Equalisation and similar provisions are prohibited.	No specific guidance.	Detailed measurement bases for the different types of insurance and reinsurance contracts. Also prescribes liability adequacy test and reinsurance impairment test and prohibits equalisation provisions.	119
Insurance and reinsurance contracts – deposit accounting and unbundling of deposit components	Deposit accounting required when measurement of deposit component is reliable and rights and obligations arising from it are not reflected in balance sheet. Unbundling permitted if deposit is reliably measurable. If unbundling is not required, deposit components may be recognised as revenue.	No specific guidance.	Concept of policyholders' account balance has been developed, and detailed rules require deposit accounting (under FAS 97). Deposit accounting for a component of a contract is covered by EITF 93-6. Reinsurance contracts that transfer only timing risk or only underwriting risk are deposit accounted.	119
Insurance contracts sold by an insurer to its own defined benefit plan	Eliminate and do not treat as plan assets in pension obligation accounting.	No specific guidance.	No specific guidance; however, practice is to treat such contracts as plan assets under FAS 87.	120
Insurance and reinsurance contracts – embedded derivatives	Exemptions from separation and fair value are given for certain embedded derivatives. Persistency bonuses are considered embedded derivatives.	No specific guidance.	Embedded derivatives must be separated and fair valued unless they are clearly and closely related. Fixed dollar persistency bonuses are not embedded derivatives but a variation of interest rates.	120

SUBJECT	IFRS	Indonesian GAAP	US GAAP	PAGE
Other accounting and reporting topics (continued)				
Insurance and reinsurance contracts – disclosures	Extensive disclosure requirements focussed on the accounting policies adopted, material amounts reported and factors that affect the uncertainty of the amounts and timing of insurance and reinsurance cash flows. Claims development tables are required.	Disclosures requirements are less demanding. Required disclosures, among others, a loss insurance company or a life insurance company must describe their accounting policies for recognition of income and expenses and reinsurance transactions.	Disclosure requirements are less demanding. However, a number of disclosure items are covered in the MD&A and other non-audited sections of annual report. Claims development tables are disclosed outside financial statements.	120
Separate accounts	Single line presentation not permitted.	No specific guidance.	FAS 60 and SOP 03-1 allow single line presentation in the balance sheet and offsetting of investment results with changes in policyholder liabilities in the income statement.	121

Accounting framework

Conceptual framework

IFRS, Indonesian GAAP and US GAAP each include a conceptual framework. The principles set out in the three frameworks provide a basis for setting accounting standards, and a point of reference for the preparation of financial information where no specific guidance exists.

Qualitative characteristics of financial information

IFRS Financial information must possess certain characteristics for it to be useful. The **IFRS Framework** requires that financial information must be understandable, relevant, reliable and comparable.

Indo GAAP Similar to **IFRS**.

US GAAP A series of concept statements set out similar characteristics to **IFRS**, with greater emphasis placed on the consistency of financial information.

Reporting elements

IFRS The **IFRS Framework** presents five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).

Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is “probable” that economic benefits will flow in to or out from the entity, and those benefits must be able to be measured reliably.

Equity is the residual interest in the assets after deducting the entity’s liabilities.

Income is increases in economic benefits that result in increases in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.

Indo GAAP Similar to **IFRS**.

US GAAP Reporting elements and the definition and recognition criteria are similar to **IFRS**. **US GAAP** concept statements contain additional elements: investments by and distributions to owners, comprehensive income and fair value measurements used in accounting. Other comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners.

Historical cost

IFRS Historical cost is the main accounting convention. However, **IFRS** permits the revaluation of intangible assets, PPE and investment property. **IFRS** also requires fair valuation of certain categories of financial instruments and certain biological assets.

Indo GAAP Similar to **IFRS**. However, the types of assets measured at their fair values, or those that can be revalued, are more limited.

US GAAP Prohibits revaluations except for certain categories of financial instrument, which have to be carried at fair value.

Conceptual framework (continued)**Fair presentation override**

IFRS Entities may depart from a standard in extremely rare circumstances in which management concludes that compliance with a requirement in an **IFRS** or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework for the Preparation and Presentation of Financial Statements. **IFRS** requires disclosure of the nature of and the reason for the departure and the financial impact of the departure. The override does not apply where there is a conflict between local company law and **IFRS**; in such a situation, the **IFRS** requirements must be applied.

Indo GAAP **Indonesian GAAP** does not address this issue specifically. However, existing Indonesian auditing standard indicate the possibility of overriding an accounting standard in rare situations in which compliance with standard could result in a misleading financial statements. Such an override would require disclosure of the nature of and reason for departure and the financial impact thereof.

US GAAP Extremely rare in practice. SEC will generally not accept such an override.

First-time adoption of accounting framework

IFRS First-time adoption of **IFRS** as the primary accounting basis requires full retrospective application of all **IFRS** effective at the reporting date for an entity's first **IFRS** financial statements, with optional exemptions primarily for PPE and other assets, business combinations and pension plan accounting and limited mandatory exceptions. Comparative information must be prepared and presented on the basis of **IFRS**. Almost all adjustments arising from the first-time application of **IFRS** must be adjusted against opening retained earnings of the first period presented on an **IFRS** basis. Some adjustments are made against goodwill or against other classes of equity.

Indo GAAP No guidance on the first time adoption of Indonesian accounting framework. Most accounting standards require retrospective application, other standards have specific transitional provisions.

US GAAP Accounting principles must be consistent for financial information presented in comparative financial statements. **US GAAP** does not give any specific guidance on first-time adoption of its accounting framework. However, first-time adoption of **US GAAP** requires full retrospective application. Particular standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public.

REFERENCES: **IFRS:** Framework, IAS 1, IAS 8, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1. **Indonesian GAAP:** Framework, PSAK 1 (Revised 1998), PSAK 16, PSAK 55, SA Section 508, Ethical Rule 203. **US GAAP:** CON 1-7, APB 20, FAS 115, FAS 130, FAS 133.

Financial statements

A. General requirements**Compliance**

IFRS Entities must disclose that financial statements comply with **IFRS**. Compliance with **IFRS** should not be disclosed unless the financial statements comply with all the requirements of each applicable standard and each applicable interpretation.

Indo GAAP Companies with securities registered in Jakarta Stock Exchange ("JSX") are required to comply with **Indonesian GAAP** and Indonesian Capital Market Supervisory Board ("BAPEPAM")'s rules and regulations.

There is a regulatory reporting requirement for certain non-public Indonesian companies including those that accumulate funds from the public (such as financial institutions) and have assets exceeding a certain amount.

US GAAP US companies with registered securities must comply with **US GAAP** and the SEC's rules and regulations and financial interpretations. Non-US companies with registered securities in the US may issue financial statements under **US GAAP** or another comprehensive basis of accounting principles (such as **IFRS**), provided that a reconciliation of net income and equity to **US GAAP** is given in the notes, together with **US GAAP** and SEC disclosures.

There is no regulatory reporting requirement for non-public US companies. However, certain regulated entities are subject to statutory reporting.

Components of financial statements

A set of financial statements under **IFRS**, **Indonesian GAAP** and **US GAAP** comprises the following components.

COMPONENT	PAGE	IFRS	Indonesian GAAP	US GAAP
Balance sheet	24	Required	Required	Required
Income statement	26	Required	Required	Required
Statement of recognised gains and losses	27	Required ¹	Required ²	Other comprehensive income ³
Statement of changes in shareholders' equity	28	Required ¹	Required	Statement of changes in stockholders' equity
Cash flow statement	28	Required	Required	Required
Accounting policies	-	Required	Required	Required
Notes to financial statements	-	Required	Required	Required

¹ Under **IFRS** recognised gains and losses can be presented in a statement of recognised gains and losses with the changes in equity displayed in a note. Alternatively, the other recognised gains and losses can be separately highlighted in the statement of changes in equity, which is presented as a primary statement.

² Under **Indonesian GAAP**, recognised gains and losses or other comprehensive income are presented within the primary statement of changes in shareholders' equity.

³ Under **US GAAP** other comprehensive income may also be presented as a separate component of either the income statement or the statement of changes in stockholders' equity.

A. General requirements (continued)

Comparatives

IFRS Requires one year of comparatives for all numerical information in the financial statements, with small exceptions.

Indo GAAP Similar to **IFRS**.

US GAAP SEC requirements specify that all registrants must give two years of comparatives (to the current year) for all statements except for the balance sheet, which requires one comparative year. This rule applies whichever accounting framework is used in the primary financial statements.

B. Balance sheet

Each framework requires prominent presentation of a balance sheet as a primary statement.

Format

IFRS Does not prescribe a particular balance sheet format, except that **IFRS** requires separate presentation of total assets and total liabilities. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheet except when a liquidity presentation provides more relevant and reliable information. In such cases, all assets and liabilities should be presented broadly in order of liquidity. However, as a minimum, **IFRS** requires presentation of the following items on the face of the balance sheet:

- Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, tax assets and cash and cash equivalents; and
- Equity and liabilities: issued share capital and other components of parent shareholders' equity, financial liabilities, provisions, tax liabilities and trade and other payables, and minority interests (presented within equity).

Indo GAAP Similar to **IFRS**, requires separate presentation of total assets and total liabilities. Current and non-current classifications are also used on the face of the balance sheet, except for certain industries such as banking. Balance sheet items are generally presented in decreasing order of liquidity.

The list of items that as a minimum should be presented on the face of the balance sheet is less comprehensive than that required by **IFRS**. There is specific guidance issued by BAPEPAM for disclosures by publicly listed companies.

US GAAP Generally presented as total assets balancing to total liabilities and shareholders' funds. Items presented on the face of the balance sheet are similar to **IFRS**, but are generally presented in decreasing order of liquidity. The balance sheet detail must be sufficient to enable identification of material components. Public entities must follow specific SEC guidance.

B. Balance sheet (continued)

Current/non-current distinction

IFRS The current/non-current distinction is not optional (except when a liquidity presentation is used). Where the distinction is made, assets must be classified as current assets where they are held for sale or consumption in the normal course of the operating cycle. Both assets and liabilities are classified as current where they are held for trading or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months; and when an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

Indo GAAP Similar to **IFRS**, current/non current classification is required, except for certain industries. Definitions of current assets and current liabilities are broadly the same. However, **Indonesian GAAP** does not specifically mention, for current liabilities, the **IFRS** criteria of "held primarily for the purpose of being traded" and "the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date". **Indonesian GAAP** is silent on agreement to refinance or reschedule payments on current liabilities that completed after balance sheet date and before the financial statements are authorised for issue. Generally, the agreement made after balance sheet date is considered as a basis to classify the liabilities as a long term liability. Furthermore, under BAPEPAM regulation for listed companies, all receivables from related parties are considered long term receivables.

US GAAP Management may choose to present either a classified or non-classified balance sheet. If a classified balance sheet is presented, the requirements are similar to **IFRS**. The SEC provides guidelines for the minimum information to be included by public companies.

Offsetting assets and liabilities

IFRS Assets and liabilities must not be offset, except where specifically permitted by a standard. Financial assets and financial liabilities may be offset where an entity has a legally enforceable right to offset the recognised amounts and intends to settle transactions on a net basis.

Indo GAAP Similar to **IFRS**.

US GAAP Offset is permitted where the parties owe each other determinable amounts, where there is an intention of offset and where the offset is enforceable by law.

C. Income statement

Each framework requires prominent presentation of an income statement as a primary statement.

Format

IFRS **IFRS** does not prescribe a standard format for the income statement. The entity must analyse its expenditure by function or nature.

As a minimum, **IFRS** requires presentation of the following items on the face of the income statement:

- revenue,
- finance costs,
- share of after-tax results of associates and joint ventures accounted for using the equity method,
- tax expense,
- post-tax gain or loss attributable to the results and re-measurement of discontinued operations, and
- net profit or loss for the period.

The portion of the net income attributable to the minority interest should be disclosed separately in the income statement.

Indo GAAP Similar to **IFRS**. However, there are differences in details of items to be presented on the face of the income statements. For example, **Indonesian GAAP** still requires presentation of operating profit or loss. **Indonesian GAAP** does not specify whether share of associates and joint ventures accounted for using the equity method uses after-tax or before-tax basis.

US GAAP Presented in one of two formats. Either:

- a single-step format where all expenses are classified by function and are deducted from total income to give income before tax; or
- in a multiple-step format where cost of sales is deducted from sales to show gross profit, then other income and expense are presented to give income before tax.

SEC regulations specify further line items.

Exceptional items

IFRS Does not use the term exceptional items but requires the separate disclosure of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes.

Indo GAAP Similar to **IFRS**.

US GAAP As under **IFRS**, the term exceptional items is not used, but significant material items must be disclosed separately on the face of the income statement in arriving at income from operations.

C. Income statement (continued)

Extraordinary items

IFRS Prohibited.

Indo GAAP Similar to **US GAAP**. Extraordinary items are defined as being both infrequent and unusual. Extraordinary items are presented separately on the face of the income statement after profit from ordinary activities. The nature and the amount of each extraordinary item should be separately disclosed. The nature of the extraordinary item and the basic considerations that classify the event or transaction as extraordinary should be disclosed in the notes to the financial statements.

US GAAP Are defined as being both infrequent and unusual. Extraordinary items are rare. Negative goodwill arising in a business combination is written off to earnings as an extraordinary gain, presented separately on the face of the income statement net of taxes. Disclosure of the tax impact is either on the face of the income statement or in the notes to the financial statements.

D. Statement of recognised gains and losses/other comprehensive income

Presentation

IFRS Recognised gains and losses can be presented either in the notes or separately highlighted within the primary statement of changes in shareholders' equity.

Indo GAAP Recognised gains and losses/other comprehensive income are presented within the primary statement of changes in shareholders' equity.

US GAAP One of three possible formats may be used:

- a single primary statement of income and comprehensive income containing both net income and other comprehensive income;
- a two-statement approach (as under **IFRS**); or
- a separate category highlighted within the primary statement of changes in equity (as under **IFRS**).

In addition, **US GAAP** requires the cumulative amounts for each item of comprehensive income. The SEC will accept the statement prepared in accordance with **IFRS** without any additional disclosures.

Format

IFRS The total of gains and losses recognised in the period comprises net income and the following gains and losses recognised directly in equity:

- fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments;
- foreign exchange translation differences;
- the cumulative effect of changes in accounting policy; and

D. Statement of recognised gains and losses/other comprehensive income (continued)

Format (continued)

- changes in fair values on certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability.

Indo GAAP Similar to **IFRS** (however, under **Indonesian GAAP** there is no basis adjustment in cash flow hedges involving forecasted transactions).

US GAAP Similar to **IFRS**, revaluations of land and buildings are prohibited under **US GAAP** and would therefore be excluded.

E. Statement of changes in shareholders' equity

IFRS The statement must be presented as a primary statement. It should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**. SEC rules allow such information to be included in the notes.

F. Cash flow statement

Exemptions

IFRS No exemptions.

Indo GAAP Similar to **IFRS**.

US GAAP Limited exemptions for certain investment entities.

Direct/indirect method

IFRS Requires the cash flow statement to report inflows and outflows of 'cash and cash equivalents'. The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The latter is more common in practice.

Indo GAAP Similar to **IFRS**. However, listed entities are required to use direct method.

US GAAP The purpose is to provide relevant information about 'cash receipts' and 'cash payments'. The direct method is encouraged; however, the indirect method is permitted. If the direct method is used, a reconciliation of net income to cash flows from operating activities must be disclosed. The indirect method is more common in practice.

F. Cash flow statement (continued)

Definition of cash and cash equivalents

IFRS Cash includes overdrafts repayable on demand but not short-term bank borrowings, which are considered to be financing flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date.

Indo GAAP Similar to **IFRS**.

US GAAP The definition of cash equivalents is similar to that in **IFRS**, except that bank overdrafts are not included in cash and cash equivalents; accordingly, changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.

Format

IFRS Requires separate classification of cash flows from operating, investing and financing activities.

Indo GAAP Same as **IFRS**.

US GAAP Same as **IFRS**.

Classification of specific items

IFRS, Indonesian GAAP and **US GAAP** require the classification of interest, dividends and tax within specific categories of the cash flow statement. These are set out below.

ITEM	IFRS	Indonesian GAAP	US GAAP
Interest paid	Operating or financing	Operating or financing	Operating
Interest received	Operating or investing	Operating or investing	Operating
Dividends paid	Operating or financing	Operating or financing	Financing
Dividends received	Operating or investing	Operating or investing	Operating
Taxes paid	Operating – unless specific identification with financing or investing	Operating – unless specific identification with financing or investing	Operating

G. Changes in accounting policy and other accounting changes

Changes in accounting policy

IFRS Changes in accounting policy should be accounted for retrospectively, with comparative information restated and the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the earliest year presented. An exemption applies when it is impracticable to change comparative information.

G. Changes in accounting policy and other accounting changes (continued)

Changes in accounting policy (continued)

Policy changes made on the adoption of a new standard must be accounted for in accordance with that standard's transition provisions. If transition provisions are not specified, the method described earlier must be used.

Indo GAAP Similar to **IFRS**.

US GAAP Requires recognition and disclosure of the cumulative amount of the change in the income statement for the period of the change. The entity discloses pro-forma comparatives as if the change had been applied to those periods. However, retrospective adjustments are required in certain cases: changes in the method of accounting for inventory valuation; depreciation in the rail industry; construction contracts and adoption of the full-cost method in the extractive industry. Unlike **IFRS**, **US GAAP** treats a change in the depreciation method for previously recorded assets as a change in accounting principle. A component of the IASB/FASB convergence project includes proposals by the FASB that would require retrospective application for all voluntary accounting policy changes and changes resulting from the adoption of a new pronouncement, except when impracticable or when allowed under the transition provision of a new pronouncement. This convergence project (if adopted) will converge the treatment of changes in depreciation methods as changes in estimates.

Correction of errors

IFRS Requires the same method as for policy changes. An entity must restate comparatives.

Indo GAAP Similar to **IFRS**.

US GAAP Reported as a prior-period adjustment; restatement of comparatives is mandatory.

Changes in accounting estimates

IFRS Changes in accounting estimates are accounted for in the income statement when identified. Changes in depreciation method and revised asset life are treated as a change in accounting estimate.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**, but treats change in depreciation method for previously recorded assets as a change in accounting principle. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.

REFERENCES: IFRS: IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, SIC-30. **Indonesian GAAP:** BAPEPAM Regulation No. Kep-06/PM/2000, Minister of Industrial and Trade Decision Letter No. 121/MPP/Kep./2/2002, PSAK 1 (Revised 1998), PSAK 2, ED PSAK 16 (Revised 2004), PSAK 25, SA 508. **US GAAP:** CON 1-7, FAS 3, FAS 16, FAS 52, FAS 95, FAS 130, FAS 141, APB 20, APB 28, APB 30, ARB 43, SEC Regulation S-X.

Consolidated financial statements

A. Preparation

IFRS Requires the preparation of consolidated financial statements by a parent entity that includes all subsidiaries. An exemption applies to a parent that is wholly owned or if:

- the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements and the parent's securities are not publicly traded;
- it is not in the process of issuing securities in public securities markets; and
- the immediate or ultimate parent publishes consolidated financial statements that comply with **IFRS**.

Indo GAAP Require the preparation of consolidated financial statements by a parent entity that include all qualified subsidiaries. No exemption such as that under **IFRS**.

US GAAP There is no exemption for general purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for public companies.

B. Subsidiaries

Definition

The definition of a subsidiary, for the purpose of consolidation, is an important distinction between the three frameworks.

IFRS Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Companies acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes. Presently exercisable potential voting rights should also be considered.

Indo GAAP Similar to **IFRS**. However, no explicit requirement to consider currently exercisable potential voting rights.

US GAAP A dual consolidation decision model is required. All consolidation decisions should be evaluated under variable interest and traditional consolidation models. Variable interest entities (VIEs) in which a parent does not have a controlling voting interest but absorbs the majority of the VIE's expected losses or returns must also be consolidated.

Special purpose entities

IFRS Requires the consolidation of special purpose entities (SPEs) where the substance of the relationship indicates that an entity controls the SPE. Indicators of control arise where:

- the SPE conducts its activities on behalf of the entity; or
- the entity has the decision-making power; or
- the entity has other rights to obtain the majority of the benefits of the SPE; or

B. Subsidiaries (continued)

Special purpose entities (continued)

- the entity has the majority of the residual or ownership risks of the SPE, or of its assets.

Indo GAAP Similar to **IFRS**.

US GAAP The consolidation of an SPE is required by its primary beneficiary only when the SPE meets the definition of a VIE and the primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

Specific criteria permit the transfer of financial assets to an SPE that is not consolidated. The SPE must be a qualifying SPE (as defined) and the assets must be financial assets (as defined). The assets must not arise from a structured transaction.

Subsidiaries excluded from consolidation

IFRS All subsidiaries are consolidated. If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with IFRS 5, an entity will apply the presentation for assets held for sale (i.e. separate presentation of assets and liabilities to be disposed of), rather than normal line-by-line consolidation presentation.

Indo GAAP Subsidiaries should be excluded from consolidation if:

- control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future, or
- it operates under long term restrictions which significantly impair its ability to transfer funds to the parent company (this condition is not required by **IFRS**),

Unlike **IFRS**, there is no guidance on the presentation of assets held for sale.

US GAAP Subsidiaries excluded from the consolidation are those for which control does not rest with the majority owner. There is no longer an exclusion based on temporary control under **US GAAP**. Unconsolidated subsidiaries are generally accounted for using the equity method unless overcoming the presumption of significant influence.

Uniform accounting policies

IFRS Consolidated financial statements must be prepared using uniform accounting policies for all of the entities in a group.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

B. Subsidiaries (continued)

Reporting periods

IFRS The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, **IFRS** does permit the consolidation of subsidiary accounts drawn up at a different reporting date, provided the difference between the reporting dates is not more than three months. Adjustments must be made for significant transactions that occur in the gap period.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

REFERENCES: **IFRS:** IAS 27, SIC-12, IFRS 5. **Indonesian GAAP:** PSAK 4, PSAK 13. **US GAAP:** ARB 51, FAS 94, SAB 51, SAB 84, EITF 96-16, FIN 46.

C. Investments in associates

Definition

IFRS An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, the definition of an associate's financial and operating policies. Participation in the entity's financial and operating policies via representation on the entity's board demonstrates significant influence. A 20% or more interest by an investor in an entity's voting rights leads to a presumption of significant influence.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**. Does not include unincorporated entities, although these would generally be accounted for in a similar way.

Equity method

IFRS An investor must account for an investment in an associate using the equity method. The investor presents its share of the associate's profits and losses in the income statement. **IFRS** specifies that this must be shown at a post-tax level. The investor recognises in equity its share of changes in the associate's equity that have not been recognised in the associate's profit or loss. The investor must account for the difference, on acquisition of the investment, between the cost of the acquisition and investor's share of fair value of the net identifiable assets, as goodwill. The goodwill is included in the carrying amount of the investment.

The investor's investment in the associate is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment below zero are applied against any long-term interests that, in substance, form part of the investor's net investment in the associate; for example, preference shares and long-term receivables and loans. Losses recognised in excess of the investor's investment in ordinary

C. Investments in associates (continued)

Equity method (continued)

shares are applied to the other components in reverse order of seniority. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations to make payments on behalf of the associate.

Disclosure of information is required about the results, assets and liabilities of significant associates.

Indo GAAP Similar to **IFRS**. However, **Indonesian GAAP** does not specify whether share of associate's profits and losses in the income statement should be shown at pre or post tax level. **Indonesian GAAP** also does not require disclosure of information about the results, assets and liabilities of significant associates.

US GAAP Similar to **IFRS**.

Impairment

IFRS Apply the general impairment requirements of **IFRS**. In estimating future cash flows the investor may use its share of the future net cash flows in the underlying entity, or the cash flows expected to arise from dividends.

Indo GAAP Similar to **IFRS**.

US GAAP The methodology of determining impairment is different from **IFRS**. A loss in the value of an investment that is other than a temporary decline should be recognised. Many factors must be considered to determine whether a decline is other than temporary, including the significance and duration of the decline.

REFERENCES: See 'Investments in joint ventures' below.

D. Investments in joint ventures

Definition

IFRS Defines a joint venture as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity.

Indo GAAP Similar to **IFRS**.

US GAAP Defines a corporate joint venture as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.

D. Investments in joint ventures (continued)

Types of joint venture

IFRS Distinguishes between three types of joint venture:

- jointly controlled entities – the arrangement is carried on through a separate entity (company or partnership);
- jointly controlled operations – each venturer uses its own assets for a specific project; and
- jointly controlled assets – a project carried on with assets that are jointly owned.

Indo GAAP Only provides guidance for jointly controlled operations and jointly controlled assets, which is similar to **IFRS**. For jointly controlled entities, **IFRS** approach is in practice acceptable.

US GAAP Only refers to jointly controlled entities, where the arrangement is carried on through a separate corporate entity.

Jointly controlled entities

IFRS Requires either the proportionate consolidation method or the equity method. Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as a separate line item in the venturer's financial statements.

Indo GAAP No specific guidance. However, **IFRS** approach is acceptable.

US GAAP Does not permit proportionate consolidation for corporate joint ventures. Venturers apply the equity method to recognise the investment in a jointly controlled entity. Equity accounting is also appropriate for investments in unincorporated joint ventures.

Contributions to a jointly controlled entity

IFRS Where a venturer contributes non-monetary assets, such as shares or fixed assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity, the venturer must recognise in the income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when:

- the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; or
- the gain or loss on the assets contributed cannot be measured reliably; or
- the asset is similar to those contributed by other venturers. Where a venturer receives assets dissimilar to those it contributed, it must recognise an appropriate proportion of the gain in the income statement.

Indo GAAP No specific guidance.

D. Investments in joint ventures (continued)

Contributions to a jointly controlled entity (continued)

US GAAP Little authoritative guidance exists regarding what basis to use in recording contributions to a jointly controlled entity. Practice has moved over time from a primarily step-up basis to a primarily predecessor basis. For joint ventures whose financial statements are filed with the SEC (or when one or more venturers are SEC registrants), step-up to fair value is only allowed when certain strict criteria are met. The formation of an entity that does not meet the definition of a joint venture should be accounted for as a business combination and not as the formation of a joint venture.

Jointly controlled operations

IFRS Similar to jointly controlled entities without a specific incorporated structure. A venturer must recognise in its financial statements:

- the assets that it controls;
- the liabilities it incurs;
- the expenses it incurs; and
- its share of income from the sale of goods or services by the joint venture.

Indo GAAP Similar to **IFRS**.

US GAAP Not specified. However, certain industry practice would permit a venturer to account for its proportionate share of the assets, liabilities, revenues and expenses in its financial statements.

Jointly controlled assets

IFRS A venturer must account for its share of the jointly controlled assets and any liabilities it has incurred.

Indo GAAP Similar to **IFRS**.

US GAAP Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.

REFERENCES: **IFRS:** IAS 1, IAS 28, IAS 31, SIC-13. **Indonesian GAAP:** PSAK 12, PSAK 15. **US GAAP:** APB 18, FIN 35.

E. Employee share ownership plans

Employee share ownership plans (ESOPs) are designed to facilitate employee shareholdings. Often they are combined with separate trusts that buy shares to be given or sold to employees.

E. Employee share ownership plans (continued)

Accounting

IFRS No specific guidance for such plans, as they are excluded from the scope of SIC-12. However, the guidance given for **US GAAP** would apply in practice.

Indo GAAP No specific guidance yet. However, the guidance given for **US GAAP** would apply in practice.

US GAAP An ESOP trust's assets and liabilities are included in the sponsoring entity's balance sheet where the arrangements are such that the sponsoring entity has de facto control and bears the benefits and risks of the shares held by the ESOP trust.

Loans to ESOPs from outside lenders, often guaranteed by the sponsoring entity, are reported as liabilities in the sponsoring entity's balance sheet, with related interest costs recognised in the sponsoring entity's income statement. The entity charges the finance costs and administrative expenses of the trust as they accrue and not as funding payments are made to the ESOP trust.

Recent proposals - IFRS

In June 2004, IFRIC issued a draft Interpretation D7 to amend the scope of SIC-12 relating to employee compensation and post-employment benefit plans. The draft interpretation proposes to remove the scope exception for equity compensation plans, thereby requiring an entity that controls an employee benefit trust (or similar entity) set up for the purpose of a share-based payment arrangement to consolidate that trust. It also proposes to amend the post-employment benefits plan exclusion to include other long-term employee benefit plans in order to ensure consistency with the requirements in IAS 19.

REFERENCES: **IFRS:** IFRS 2. **US GAAP:** SOP 76-3, SOP 93-6.

Business combinations

A. Types

A business combination involves the bringing together of separate entities or businesses into one reporting entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified; this is the most common type of combination. A uniting of interests (pooling) occurs where the shareholders of the combining entities join in substantially equal arrangements to share control. A group reorganisation can arise from transactions among entities that operate under common control.

IFRS Business combinations are always accounted for as acquisitions. **IFRS** requires the purchase method of accounting to be used to portray the financial effect of an acquisition. The specific **IFRS** guidance about business combinations excludes from its scope transactions among entities under common control.

Indo GAAP Either the purchase method of accounting, or, when meeting certain criteria, pooling of interests, is used in a business combination.

US GAAP Requires the use of the purchase method of accounting for all business combinations. Transfers of net assets or shares of entities under common control are accounted for at predecessor book basis.

B. Acquisitions

Date of acquisition

IFRS The date on which the acquirer obtains control over the acquired entity or business.

Indo GAAP Similar to **IFRS**.

US GAAP The date on which assets are received or securities are issued (i.e. the transaction closes).

Cost of acquisition

The cost of acquisition is the amount of cash or cash equivalents paid (or fair value of non-monetary assets exchanged). Where consideration comprises an exchange of shares, specific guidance applies under each framework.

IFRS Shares issued as consideration are recorded at their fair value as at the date of the exchange – the date on which the acquirer obtains control over the acquiree's net assets and operations. When the acquisition occurs in stages, the fair value of the shares issued as purchase consideration is determined at each exchange date.

In an active market, the published price of a share at the date of exchange is the best evidence of fair value.

Indo GAAP Similar to **IFRS**.

B. Acquisitions (continued)**Cost of acquisition** (continued)

US GAAP Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities should not be influenced by the need to obtain shareholder or regulatory approval.

Contingent consideration

IFRS If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, **IFRS** requires an estimate of the amount to be included as part of the cost at the date of the acquisition where it is probable that it will be paid and it can be reliably measured. Any revision to the estimate is subsequently adjusted against goodwill.

Indo GAAP Similar to **IFRS**.

US GAAP Generally excluded from the initial purchase price. The additional cost is not recognised until the contingency is resolved or the amount is determinable. Any additional revision to the estimate is recognised as an adjustment to goodwill. Additional consideration to be paid on the condition of continued employment by former owner/manager is generally not included in the cost of the acquisition but is recognised as compensation expense.

Recognition and measurement of identifiable assets and liabilities acquired

IFRS, Indonesian GAAP and **US GAAP** require separate recognition, by the acquirer, of the acquiree's identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition. These assets and liabilities must be recognised at fair value at the date of acquisition. However, the **IFRS** and **Indonesian GAAP** frameworks apply criteria different from the **US GAAP** in recognising acquisition restructuring provisions.

Restructuring provisions

IFRS The acquirer may only recognise restructuring provisions as part of the acquired liabilities only when the acquiree has at the acquisition date an existing liability for restructuring recognised in accordance with IAS 37.

Indo GAAP Similar to **IFRS**.

US GAAP As of the acquisition date, management, having the appropriate level of authority, must begin to assess and formulate a plan to exit an activity of the acquired entity. The plan must be completed in detail as soon as possible, but no more than one year after the consummation date and management must communicate the termination or relocation arrangements to the employees of the acquired company. The restructuring provision must meet the definition of a liability in order to be recorded.

B. Acquisitions (continued)**Intangible assets**

IFRS An intangible asset must be recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Acquired in-process research and development (R&D) is recognised as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. Non-identifiable intangible assets are subsumed within goodwill.

Indo GAAP Similar to **IFRS**.

US GAAP In practice, similar intangible assets may be recognised under all **IFRS, Indonesian GAAP** and **US GAAP**. **US GAAP** similarly requires the fair value exercise to include acquired in-process R&D. However, the acquired in-process R&D must be expensed immediately unless it has an alternative future use.

Contingent liabilities

IFRS Recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost, provided their fair values can be measured reliably.

Indo GAAP **Indonesian GAAP** does not specifically address the acquiree's contingent liabilities at the acquisition date. However **IFRS** approach is acceptable.

US GAAP If fair value can be determined during the allocation period, the contingent liabilities are included in the allocation of purchase price. If the fair value cannot be determined, the contingent liability should be included if it is probable and reasonably estimable.

Deferred tax recognised in purchase accounting

IFRS The recognition of a deferred tax asset of the acquirer not previously recognised that becomes recognisable because of a business combination is reported in income as a tax benefit.

Indo GAAP Similar to **US GAAP**, recognition of deferred tax asset is recognised as adjustment to goodwill.

US GAAP The recognition of a deferred tax asset of either the acquirer or the acquiree not previously recognised that becomes recognisable because of a business combination results in an adjustment to goodwill.

Minority interests at acquisition

IFRS Where an investor acquires less than 100% of a subsidiary, any minority interest should be stated at the minority's proportion of the net fair value of acquired assets, liabilities and contingent liabilities assumed.

Indo GAAP Generally similar to **US GAAP**, fair values are assigned only to the parent company's shares of the net assets acquired. The minority interest is valued at its historical book value.

US GAAP Fair values are assigned only to the parent company's shares of the net assets acquired. The minority interest is valued at its historical book value.

C. Goodwill

Goodwill arises as the difference between the cost of the acquisition and the fair value of identifiable assets, liabilities and contingent liabilities acquired (except under **Indonesian GAAP** where generally contingent liabilities are not recognised - please see “contingent liabilities” in business combination section). Purchased goodwill is capitalised as an intangible asset.

- IFRS** Goodwill should not be amortised but should be reviewed for impairment at least annually at the cash-generating-unit level.
- Indo GAAP** Goodwill should be amortised. The amortisation period should not exceed 5 years unless a longer period, not exceeding 20 years from the date of acquisition, can be justified and the justification should be disclosed. In amortising goodwill, the straight-line basis should be used unless another amortisation method is more appropriate in the circumstances. Amortisation and impairment charges should also be recognised in arriving at operating profit.
- US GAAP** Similar to **IFRS**. Goodwill should not be amortised but must be reviewed for impairment at least annually at the reporting unit level. A reporting unit can be an operating segment, as defined in guidance on the disclosure of segments (see p111), if it meets the definition of a reporting unit, or one level below an operating segment.

Impairment

IFRS Requires an impairment review of goodwill annually or whenever an indication of impairment exists. If some of the goodwill allocated to a CGU was acquired in a business combination during the current annual period, that CGU is required to be tested for impairment before the end of the current period.

A one-step impairment test is performed. The recoverable amount of the CGU (i.e. the higher of its asset's net selling price and its value in use) is compared to its carrying amount. The impairment loss is recognised as the excess of the carrying amount over the recoverable amount. If the impairment loss exceeds the book value of goodwill, allocation must be made on a pro rata basis.

Indo GAAP Requires an impairment review of goodwill annually. **Indonesian GAAP** does not specifically describe the impairment test for goodwill arising from acquisition, but the practice is similar to **IFRS**.

US GAAP Goodwill is reviewed for impairment, at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount must be assessed.

A two-step impairment test is required:

- 1) the fair value and the carrying amount of the reporting unit including goodwill should be compared. If the fair value of the reporting unit is less than the book value, goodwill would be considered to be impaired; then
- 2) the goodwill impairment should be measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill should be determined by allocating fair value to the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination. The impairment charge should be included in operating income.

C. Goodwill (continued)

Negative goodwill

- IFRS** If any excess of fair value over the purchase price arises, the acquirer should reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, and should recognise immediately in profit or loss any excess remaining after that assessment.
- Indo GAAP** The excess of fair value of acquired net assets over the acquisition cost should be allocated proportionally by reducing non-monetary assets of the acquiree, the remaining excess after the non-monetary assets has been reduced to nil should be presented as deferred income and recognised as income over a period not less than 20 years. The negative goodwill spread over those assets, will be realised as income when the assets concerned are sold or as the future economic benefits embodied therein are consumed.

US GAAP Any excess of fair value over the purchase price must be allocated on a pro-rata basis to all assets other than:

- current assets;
- financial assets (other than equity method investments);
- assets to be sold;
- prepaid pension assets; and
- deferred taxes.

Any negative goodwill remaining is recognised as an extraordinary gain. If the business combination includes contingent consideration, the lesser of the maximum contingent consideration or the negative goodwill remaining is recorded as if it was a liability.

Subsequent adjustments to assets and liabilities

- IFRS** Permits adjustments against goodwill to the provisional fair values recognised at acquisition provided those adjustments are made within 12 months of the acquisition date. Adjustments after the 12 months must be recognised in the income statement.
- Indo GAAP** Similar to **IFRS**. However, adjustment should be made before balance sheet date.
- US GAAP** Similar to **IFRS**. However, favourable adjustments to restructuring provisions if made are always recognised as changes to goodwill, with unfavourable adjustments recognised as changes to goodwill if made during the allocation period, or charged to expense if made after the allocation period. The allocation period, which cannot extend beyond one year following the date of the acquisition, is for adjustments relating to information that management has been waiting for to complete its purchase price allocation. Adjustments related to pre-acquisition contingencies that are finalised after the allocation period or events occurring after the acquisition date should be recognised in the income statement.

C. Goodwill (continued)**Subsequent adjustments to deferred tax**

IFRS If a deferred tax asset relating to the acquiree is identified but not recognised at the time of the acquisition and is subsequently recognised in the acquirer's consolidated financial statements, the deferred tax income is recognised in the income statement. The acquirer must also adjust goodwill as if the deferred tax asset had been recognised at the acquisition date. The subsequent reduction in the net carrying amount of goodwill is recognised in the income statement as an expense.

Indo GAAP Similar to IFRS.

US GAAP Subsequent recognition of a deferred tax asset for which a valuation allowance was established on the acquisition date reduces goodwill, then reduces intangible assets and finally reduces tax expense. Subsequent establishment of a valuation allowance (after the allocation period) related to a deferred tax asset recognised on an acquisition is recorded as expense.

D. Disclosure

ITEM	IFRS	Indonesian GAAP	US GAAP
General			
Names and descriptions of the combining entities	Required.	Required.	Required. Also disclose the reasons for the business combination.
The effective date of the combination for accounting purposes	Required.	Required.	Required.
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration	Required.	Required.	Required. Also disclose the basis for determining the value of shares given as consideration. Disclose accounting treatment to be followed should contingent consideration be realised.
Operations to be disposed of	Required.	Required.	Required.
The % of voting shares	Required.	Required.	Required.
Goodwill			
Goodwill – impairment charge	Required.	Required.	Required.
Total amount of goodwill – amount expected to be tax deductible – the amount of goodwill by reportable segment	Not specified.	Not specified.	Required.

D. Disclosure (continued)

ITEM	IFRS	Indonesian GAAP	US GAAP
Goodwill (continued)			
Reconciliation of the goodwill between opening and closing amount	Required.	Required.	Required. Also disclose the reasons for the business combination.
Factors giving rise to goodwill and a list of unrecognised intangible assets	Required.	Factors giving rise to goodwill is not specified while a list of unrecognised intangible assets is encouraged.	Only description of factors giving rise to goodwill required.
Other financial disclosures			
Summary of fair value of assets and liabilities acquired with separate disclosure of cash equivalents	Required.	Not specified.	Provide condensed balance sheet disclosing amounts assigned to each balance sheet caption of the acquired entity.
Provisions for terminating or reducing activities of acquiree	Required, subject to meeting IAS 37 recognition criteria.	Required.	Required.
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition	Required unless impracticable.	Not specified.	Not required, but instead pro-forma income statement information is presented (see below).
Amount of purchased research and development assets acquired and written off in the period	Not applicable.	Not applicable.	Required.
If the purchase price had not been finalised, disclose that fact and the reasons. In subsequent periods, adjustments made to the initial allocations must be disclosed	Not specified.	Not specified.	Required.
Details of amounts allocated to intangible assets including total amounts, amortisable/non-amortisable, residual values and amortisation period by assets	Required.	Not specified.	Required.

D. Disclosure (continued)

ITEM	IFRS	Indonesian GAAP	US GAAP
Other financial disclosures (continued)			
Pro-forma income statement including comparatives	Not required; however, the revenue and profit or loss for the period should be disclosed as though the acquisition date had been the beginning of that period, unless impracticable.	Not required.	Required only for public entities.
For a series of individually immaterial business combinations that are material in the aggregate: <ul style="list-style-type: none"> the number of entities and brief description the aggregate cost, the number of entity interests issued or issuable and value the aggregate amount of any contingent payments options or commitments 	Required.	Not required.	Required.

E. Uniting of interests

Under **Indonesian GAAP** it is very rare to account for a business combination as a uniting of interests. **IFRS** and **US GAAP** prohibit the use of this method.

The criteria under **Indonesian GAAP** focus on the substance of the transaction. In a uniting of interests an acquirer cannot be identified. Control must not appear to pass from one entity to another; the parties must come together in substance to create a new reporting entity and to share in its future risks and benefits.

Accounting for uniting of interests

Under **Indonesian GAAP**, the uniting of interests does not involve an acquisition but a continuation of the business that existed before the transaction. The financial statements of the combining parties are simply added together. The combined assets, liabilities and reserves are recognised at their existing carrying amounts (after adjustments necessary to conform the accounting policies and practices). The results are combined from the earliest year reported and comparatives are restated. No goodwill is recognised on the transaction; any difference arising is adjusted against equity. Expenses relating to a uniting of interests are recognised in the income statement in the period incurred.

F. Common control transactions

IFRS There are two basic method of accounting for business combinations - the purchase method and the pooling-of-interests method. **IFRS** does not require or prohibit the application of either method. Management can therefore elect to apply purchase accounting or the pooling-of-interests method to a transaction among entities under common control. Once selected, the accounting policy can be changed only when the criteria in IAS 8 are met. Related-party disclosures are used to explain the impact of transactions with related parties on the financial statements.

Indo GAAP Business combination of entities under common control is recorded as if using the pooling-of-interest method. Any difference between the transfer price and the book value is recorded under the account "Difference in Value from Restructuring Transactions of Entities under Common Control" and presented as a component of the equity section.

US GAAP Specific rules exist for accounting for combinations of entities under common control. Such transactions are generally recorded at predecessor cost, reflecting the transferor's carrying amount of the assets and liabilities transferred. The use of predecessor values or fair values depends on a number of individual criteria.

G. Purchase and sale of non-controlling interest

IFRS Does not specifically address such transactions. Entities must develop and consistently apply an accounting policy either based on the economic entity concept or the parent company approach.

Indo GAAP Does not specifically address such transactions. Approach that similar to that of **IFRS** may apply.

US GAAP The acquisitions of some or all of the non-controlling interest in a subsidiary should be accounted for using the purchase method. A gain from the reduction of an interest in a subsidiary may be recognised for a public offering only if the transaction is not part of a group re-organisation.

H. Step acquisitions

IFRS The acquiree's identifiable assets, liabilities and contingent liabilities are re-measured to fair value at the acquisition date. Each significant transaction is treated separately for the purpose of determining the cost of the acquisition and the amount of goodwill. Any existing goodwill is not re-measured. The adjustment to any previously held interests of the acquirer in the acquiree's identifiable assets, liabilities and contingent liabilities is treated as a revaluation.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**, each significant transaction is treated separately for the purposes of determining the cost of the acquisition and the amount of the related goodwill. Any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of fair values at different dates.

Recent proposals - IFRS

The IASB issued an exposure draft to amend IFRS 3 in April 2004. The ED proposed to include in the scope of IFRS business combinations that involve two or more mutual entities, and combinations in which separate entities are brought together by contract alone. This proposal was dropped after the September 2004 IASB meeting.

REFERENCES: IFRS: IAS 12, IFRS 3, SIC-9. **Indonesian GAAP:** PSAK 19 (Revised 2000), PSAK 22, PSAK 38 (Revised 2004), PSAK 46, PSAK 48, PSAK 57. **US GAAP:** FAS 38, FAS 121, FAS 141, FAS 142, EITF 95-3.

Revenue recognition

A. Revenue

Definition

IFRS Income is defined in the Framework to include revenues and gains. A specific standard on revenue recognition defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of a company when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.

Indo GAAP Similar to **IFRS**.

US GAAP Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's major ongoing operations.

Measurement

All frameworks require measurement of revenues at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is deferred, discounting to a present value is required under **IFRS** and **Indonesian GAAP**, and, in limited situations, under **US GAAP**.

Revenue recognition

IFRS **IFRS** frameworks contain a specific standard on revenue recognition. The standard describes specific revenue recognition criteria for the sale of goods and for the rendering of services and interest, royalties and dividends. The revenue recognition criteria common to each of these are: the probability that the economic benefits associated with the transaction will flow to the entity, and that the revenue and costs can be measured reliably.

Additional recognition criteria apply to revenue arising from the sale of goods. **IFRS** requires that the seller has transferred the significant risks and rewards of ownership to the buyer and retains neither management involvement in, nor control over, the goods. Revenue from the rendering of services must be recognised by reference to the state of completion of the transaction at the balance sheet date. Interest revenue must be recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis, and dividends are recognised when the shareholder's right to receive payment is established.

Indo GAAP Similar to **IFRS**, except that the revenue recognition standard contains less examples for specific transactions such as bill and hold arrangements, lay away sales, subscriptions to publication, advertising commissions and insurance agency commissions (in fact, the IAS 18 Appendix has not been adopted). However, there are numerous standards supplementing the Indonesian revenue recognition standard such as that for the telecommunication industry.

A. Revenue (continued)

Revenue recognition (continued)

US GAAP The guidance under **US GAAP** is extensive. There are a number of different sources of revenue recognition guidance, such as SFAS, SABs, SOPs, EITFs and AAERs. **US GAAP** focuses more on revenues being realised (either converted into cash or cash equivalents or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Revenue recognition involves an exchange transaction – i.e. there should be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria that an entity must meet before revenue is realised and earned (compared to **IFRS** in the table below). In addition, SEC pronouncements provide guidance related to specific revenue recognition situations.

Revenue recognition criteria

IFRS	Indonesian GAAP	US GAAP
It is probable that economic benefits will flow to the entity.	Similar to IFRS .	Vendor's price to the buyer is fixed or determinable. Collectability is reasonably assured.
The amount of revenue can be measured reliably.	Similar to IFRS .	Vendor's price to the buyer is fixed or determinable.
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods.	Similar to IFRS .	Persuasive evidence of an arrangement exists and delivery has occurred or services have been rendered.
The entity retains neither continuing managerial involvement nor effective control over the goods.	Similar to IFRS .	Delivery has occurred or services have been rendered.
The costs incurred or to be incurred in respect of the transaction can be measured reliably.	Similar to IFRS .	Vendor's price to the buyer is fixed or determinable, and collectability is reasonably assured.
The stage of completion of the transaction can be measured reliably.	Similar to IFRS .	Vendor's price to the buyer is fixed or determinable.

B. Specific revenue recognition issues

Warranty and product maintenance contracts

IFRS When a product's selling price includes an identifiable component for subsequent servicing, the latter is deferred and recognised over the warranty period.

B. Specific revenue recognition issues (continued)

Warranty and product maintenance contracts (continued)

Indo GAAP No specific guidance. However, **IFRS** approach is acceptable.

US GAAP Similar to **IFRS**, revenue must be recognised on a straight-line basis unless the pattern of costs indicates otherwise. Consistent with **IFRS**, a loss must be recognised immediately if the expected cost to provide services during the warranty period exceeds unearned revenue.

Barter transactions – advertising

IFRS An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services. Under **IFRS**, revenue may generally be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction must be measured at the fair value of goods or services received; however, where the fair value of goods or services received cannot be measured reliably, the fair value of the goods and services given up is used. The fair value of advertising received or provided in a barter transaction is generally measured by reference to equivalent non-barter transactions.

Indo GAAP No specific guidance. However, **IFRS** approach is acceptable.

US GAAP Revenue and expense must be recognised at the fair value of the advertising given. Fair value must be based on the entity's own historical practice of receiving cash for similar advertising from unrelated entities. Similar transactions used as a guide to fair value must not be older than six months prior to the date of the barter transaction. If the fair value of the advertising given cannot be determined within these criteria, the carrying amount of the advertising surrendered, which is likely to be zero, must be used.

Multiple-element arrangements

IFRS No detailed guidance for multiple-element revenue recognition arrangements exists. The recognition criteria are usually applied separately to each transaction. However, they are applied to two or more transactions together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.

Indo GAAP No specific guidance. However, **IFRS** approach is acceptable.

US GAAP Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement's consideration should be allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria should be considered separately for separate units of accounting.

Multiple-element arrangements – software revenue recognition

IFRS No specific software revenue recognition guidance exists. Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support.

B. Specific revenue recognition issues (continued)

Multiple-element arrangements – software revenue recognition (continued)

Indo GAAP No specific guidance. However, **IFRS** approach is acceptable.

US GAAP Provides specific guidance on software revenue recognition for software vendors, and in particular for multiple-element arrangements. For these arrangements, a value is established for each element based on vendor-specific objective evidence (VSOE) or other evidence of fair value. VSOE is generally limited to the price charged when elements are sold separately. Consideration is allocated to separate units based on their relative fair values and revenue is recognised as each unit is delivered.

C. Construction contracts

Scope

IFRS Applies to fixed-price and cost-plus construction contracts of contractors (not defined), for the construction of a single asset or combination of assets.

Indo GAAP Similar to **IFRS**.

US GAAP Guidance is defined from the perspective of the contractor rather than the contract, as in **IFRS**. Scope is not limited to construction-type contracts, guidance is also applicable to unit-price and time-and-materials contracts.

Recognition method

IFRS Requires the percentage of completion method to recognise revenue and expenses if the outcome can be measured reliably. The criteria necessary for a cost-plus contract to satisfy reliable measurement is less restrictive than for a fixed-price contract. When final outcome cannot be estimated reliably, **IFRS** requires the use of the zero-profit method, which recognises revenue only to the extent of contract costs incurred that are expected to be recovered. Provides limited guidance on the use of estimates.

Indo GAAP Similar to **IFRS**.

US GAAP The percentage of completion method is preferred. However, in rare circumstances, when the extent of progress towards completion is not reasonably measurable, the completed contract method should be used. Provides detailed guidance on the use of estimates.

Applying the percentage of completion method

IFRS When the outcome of the contract can be estimated reliably, revenue and costs must be recognised by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss must be recognised as an expense immediately.

C. Construction contracts (continued)

Applying the percentage of completion method (continued)

Indo GAAP Similar to **IFRS**.

US GAAP Permits two different approaches:

- the revenue cost approach (similar to **IFRS**) multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenue, and multiplies the estimated percentage of completion by the estimated total contract cost to determine the cost of earned revenue; and
- the gross-profit approach (different from **IFRS**) multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date.

Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.

Completed contract method

IFRS Prohibited.

Indo GAAP Similar to **IFRS**.

US GAAP The percentage of completion method is preferred. However, the completed contract method is allowed in rare circumstances where estimates of costs to completion and the extent of progress towards completion cannot be determined with enough certainty. Revenue is recognised only when the contract is completed or substantially so. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.

Combining contracts and segmenting a contract

IFRS Requires contracts to be combined when part of a package, or segregated when each contract is part of a separate proposal and when revenues and costs can be clearly identified.

Indo GAAP Similar to **IFRS**.

US GAAP Combining contracts is permitted but not required.

REFERENCES: **IFRS:** IAS 11, IAS 18. **Indonesian GAAP:** Conceptual framework, PSAK 23, PSAK 34, PSAK 35. **US GAAP:** CON 5, SAB 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1.

Expense recognition

A. Expenses

Definition

IFRS Expenses are defined in the Framework to include losses. Expenses are decreases in economic benefits that result in a decrease in equity.

Indo GAAP Similar to **IFRS**.

US GAAP Expenses are defined by the Concept Statement to represent actual or expected cash outflows, or the equivalent, that have occurred or will result from the entity's ongoing major operations.

B. Specific expense recognition issues

Interest expense

IFRS Interest expense is recognised on an accrual basis. Where interest expense includes a discount or premium arising on the issue of a debt instrument, the discount or premium is amortised using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt instrument to the carrying amount of the debt instrument.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

C. Employee benefits – pensions

All frameworks require the cost of providing these benefits to be recognised on a systematic and rational basis over the period during which employees provide services to the entity. All three frameworks separate pension plans into defined contribution plans and defined benefit plans, and define them in similar ways.

Defined contribution plans

Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity is under no legal or constructive obligation to make further contributions to the fund even if losses are sustained. Under these plans it is the employee who is exposed to the risk attributable to the plan assets. All three frameworks require pension cost to be measured as the contribution payable to the fund on a periodic basis.

C. Employee benefits – pensions (continued)

Defined benefit plans

Defined benefit plans oblige the employer to provide defined post-employment benefits of set amounts to employees. The risks associated with plan assets rest with the employer.

The methodology for accounting for defined benefit plans is similar under all three frameworks. The key features are:

ITEM	IFRS	Indonesian GAAP	US GAAP
Determination of pension and post-retirement expense	Use projected unit credit actuarial method.	Similar to IFRS .	Similar to IFRS .
Discount rate for obligations	Based on market yields for high-quality corporate bonds. Government bond yields should be used when there is no deep market in high-quality corporate bonds.	Similar to IFRS .	Similar to IFRS , except that government bonds are not used.
Valuation of plan assets	Measure at fair value or using discounted cash flows if market prices unavailable.	Similar to IFRS .	Similar to IFRS , except for differences resulting from the rate applied to market related value of plan assets (see expected return on plan assets below).
Recognition of actuarial gains and losses	Immediate recognition or amortise over expected remaining working lives of participating employees. At a minimum, a net gain/loss in excess of 10% of the greater of the defined benefit obligation or the fair value of plan assets at the beginning of year should be recognised.	Similar to IFRS .	Similar to IFRS , except that if all or almost all plan participants are retired, actuarial gains and losses are amortised over the remaining life expectancy of the plan participants.
Expected return on plan assets	Based on market expectations at the beginning of the period for returns over the entire life of the related obligation. Reflects changes in the fair value of plan assets as a result of actual contributions and benefits paid. The rate is applied to the fair value.	Similar to IFRS .	Based on market conditions and nature of the assets. Includes changes in plan assets due to contributions and benefit payments. The rate is applied to the market-related value of the plan assets, which is either the fair or a calculated value (which incorporates asset-related gains and losses over a period of no more than five years).

C. Employee benefits – pensions (continued)

Defined benefit plans (continued)

ITEM	IFRS	Indonesian GAAP	US GAAP
Balance sheet asset limitation	Asset limited to the lower of: a) the asset resulting from applying the standard, and b) the net total of any unrecognised actuarial losses and past service cost and the present value of any available refunds from the plan or reduction in future contributions to the plan.	Similar to IFRS .	No similar requirement.
Recognition of minimum pension liability	Not required.	Not required.	Additional minimum liability is required when the accumulated benefit obligation exceeds the fair value of the plan assets and the amount of the accrued liability.
Past-service cost	Positive and negative past-service cost recognised over remaining vesting period. Where benefits have already vested, recognise past-service cost immediately.	Similar to IFRS .	Positive prior-service cost for current and former employees recognised over remaining service lives of active employees. Negative prior-service costs are used first to offset previous positive prior-service costs. Recognise excess as for positive prior-service cost.
Multi-employer plans	Use defined benefit accounting unless sufficient information is not available.	Similar to IFRS .	Use defined contribution accounting.
Subsidiary's defined benefit pension plan forming part of a group plan	No exemption. The plan is accounted for as a defined benefit plan.	Similar to IFRS .	The subsidiary should account for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.

C. Employee benefits – pensions (continued)

Defined benefit plans (continued)

ITEM	IFRS	Indonesian GAAP	US GAAP
Curtailment/settlement (timing of recognition)	Gains and losses on curtailments are recognised when curtailments/settlements occur.	Similar to IFRS .	Curtailment losses are recognised when it is probable that a curtailment will occur and the effect of the curtailment is reasonably estimable. Curtailment gains are deferred until realised and are recognised in earnings, either when the related employees terminate, or the plan suspension or amendment is adopted. Settlement gains or losses are recognised when the event of settlement occurs.
Curtailment/settlement (calculation of gains and losses)	Gains and losses on curtailments/settlements include changes in the present value of the defined benefit obligation, any resulting changes in the fair value of the plan assets and any related actuarial gains and losses and past-service cost that had not previously been recognised.	Similar to IFRS .	Gains and losses on curtailments include unrecognised prior-service cost for which services are no longer expected to be rendered, and changes in the projected benefit obligation (net of any unrecognised gains or losses and remaining transition asset). The maximum gain or loss on settlements to be recognised in profit or loss is equal to unrecognised net gain or loss plus any unrecognised transitional asset.

C. Employee benefits – pensions (continued)

Defined benefit plans (continued)

Recent proposals – IFRS

The IASB issued an exposure draft to amend IAS 19 in April 2004. It includes proposals (a) to give entities an option to show in full, pension deficits and available surpluses by recognising gains and losses through equity rather than the income statement, (b) to extend the application of multi-employer plan accounting to entities within a consolidated group, and (c) for additional disclosures.

IFRIC issued draft Interpretation D6 on IAS 19 in May 2004. It provides guidance on the IAS 19 requirements relating to multi-employer benefit plans.

IFRIC issued draft Interpretation D9 on IAS 19 in July 2004. It confirms that an employee benefit plan with a promised return on contributions is a defined benefit plan and proposes how to measure cash balance and similar types of plans.

REFERENCES: **IFRS:** IAS 19, IAS 39. **Indonesian GAAP:** Conceptual Framework, PSAK 24 (Rev 2004), PSAK 26 (1997). **US GAAP:** APB 21, FAS 87, FAS 88.

D. Employee share compensation

Recognition

IFRS Requires recognition of the fair value of shares and options awarded to employees over the period to which the employees' services relate. The award is presumed to be for past services if the award is unconditional without any performance criteria.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Measurement

IFRS Shares and share options are often granted to employees as part of their remuneration package, in addition to salary and other employment benefits. IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. Extensive disclosures are also required.

Indo GAAP Basic principles are in general similar to **IFRS**, but less extensive disclosures.

US GAAP Entities have a choice of accounting methods for determining the costs of benefits arising from employee share compensation plans. They may either follow an intrinsic value method or a fair value method.

D. Employee share compensation (continued)

Measurement (continued)

Under the intrinsic value method, the compensation cost is the difference between the market price of the share at the measurement date and the price to be contributed by the employee (exercise price). Usually the measurement date is the date of grant. This method is widely used in practice.

The fair value method is based on the fair value of the option at the date of grant. This is estimated using an option-pricing model. If an entity chooses to follow the intrinsic value method, it must make, with comparable prominence and clarity, pro-forma disclosures of net income and earnings per share as if the fair value method had been applied.

Employer's payroll tax payable on exercise of share options by employees

IFRS Employers' social security liability arising from share-based payment transactions should be recognised over the same period or periods as the share-based payment charge.

Indo GAAP No specific guidance.

US GAAP Employer payroll taxes due on the exercise of share options should be recognised as an expense at the option's exercise date.

Non-employee share-based payment transactions

IFRS Goods or services acquired in a share-based payment transaction should be recognised when they are received. An expense or an asset arises out of a share-based payment transaction. The credit side of the entry will be a liability if the entity has an obligation to settle the transaction in cash. However, if there is no possibility of settling in cash, and the consideration for goods and services will therefore be achieved through the issuance of equity instruments, the credit entry is an increase in equity. IFRS 2 requires the fair value of the goods or services acquired by an entity to be determined and used as the value for an equity-settled share-based payment transaction.

Indo GAAP Similar to **US GAAP**.

US GAAP Similar to **IFRS**, except that the expense should be measured based on the fair value of either the goods or services received or the fair value of securities issued, whichever is more reliably measurable.

Recent proposals – US GAAP

The FASB issued an exposure draft on share-based payments, on 31 March 2004. The ED proposes that the cost of all forms of equity-based compensation granted to employees, excluding employee stock ownership plans, be recognised in a company's income statement. The award's cost would be measured at fair value. This will replace FAS 123 and APB 25.

REFERENCES: **IFRS:** IAS 19, IAS 37, IFRS 2. **Indonesian GAAP:** PSAK 24 (Revised 2004), PSAK 53. **US GAAP:** APB 25, FAS 123, FAS 148, FIN 44, EITF D-83, EITF 00-16.

E. Compensated absences

Includes long-term compensated absences such as long-term disability, long service and sabbatical. These benefits typically accumulate over the employee's service period. All three frameworks recognise the liability as the employee provides the service that gives rise to the right to the benefit.

F. Termination benefits

IFRS Termination benefits arising from redundancies are accounted for similarly to restructuring provisions.

If an offer is made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

Termination indemnities are generally payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. **IFRS** requires that termination indemnities be accounted for consistently with pension obligations (i.e. including a salary progression element and discounting).

Indo GAAP Similar to **IFRS**.

US GAAP Sets out specific guidance addressing post-employment benefits, for example salary continuation, termination benefits, training and counselling. **US GAAP** distinguishes between four types of termination benefits with three different timing methods for recognition:

- 1) Special termination benefits - generally additional benefits offered for a short period of time to certain employees electing to accept an offer of voluntary termination, recognised at the date on which the employees accept the offer and the amount can be reasonably estimated;
- 2) Contractual termination benefits - which are benefits provided to employees when employment is terminated due to a specified event under an existing plan, recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated;
- 3) Termination benefits that are paid for normal severances pursuant to an ongoing termination benefit plan. Costs are recognised for probable and reasonably estimable payments as employee services are rendered, if the benefit accumulates, or when the obligating event occurs; and
- 4) One-time termination benefits - benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement.

A one-time benefit arrangement is one that is established by a termination plan that applies for a specified termination event or for a specified future period. These one-time benefits are recognised as a liability when the termination plan meets certain criteria and has been communicated to employees (the communication date). If employees are required to render future service in order to receive the one-time benefits, the liability is recognised rateably over the future service period.

Termination indemnity plans are considered to be defined benefit plans under **US GAAP**. Entities may choose whether to calculate the vested benefit obligation as the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately, or as the actuarial present value of the vested benefits to which the employee is currently entitled, based on the employee's expected date of separation or retirement.

F. Termination benefits (continued)

REFERENCES: IFRS: IAS 19. Indonesian GAAP: PSAK 24 (Revised 2004). US GAAP: FAS 43, FAS 88, FAS 112, FAS 146, EITF 88-1.

Assets

A. Intangible assets

Definition

IFRS An intangible asset is an identifiable non-monetary asset without physical substance controlled by the entity and held for use in the production or supply of goods or services, for rental to others, or for administration purposes. It may be acquired or internally generated.

Indo GAAP Similar to IFRS.

US GAAP Similar to IFRS.

Recognition – acquired intangibles¹

IFRS General IFRS asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

Indo GAAP Similar to IFRS.

US GAAP Similar to IFRS.

¹ See p41 for accounting for intangible assets acquired in a business combination.

Recognition – additional criteria for internally generated intangibles

IFRS Requires classification of the costs associated with the creation of intangible assets by research phase and development phase. Costs in the research phase must always be expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset;
- the intention to complete the intangible asset;
- the ability to use or sell it;
- how the intangible asset will generate future economic benefits – the entity must demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset;
- the availability of adequate resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs initially recognised as an expense cannot be capitalised in a subsequent period.

Indo GAAP Similar to IFRS.

A. Intangible assets (continued)

Recognition additional criteria for internally generated intangibles (continued)

US GAAP Applies stricter recognition criteria than **IFRS**. Research and development costs should be expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold. Here, capitalisation (and amortisation) applies once technological feasibility is established. Capitalisation ceases when the product is available for general release to customers. Similar rules apply to certain elements of development costs for computer software developed for internal use.

Recognition – website development costs

IFRS Costs incurred during the planning stage must be expensed. Costs incurred for activities during the website's application and infrastructure development stages must be capitalised, and costs incurred during the operation stage must be expensed as incurred.

Indo GAAP No specific guidance. However, **IFRS** approach is acceptable.

US GAAP Similar to **IFRS**.

Measurement – acquired intangibles

IFRS The cost of a separately acquired intangible asset at the date of acquisition is usually self-evident, being the fair value of the consideration paid.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Measurement – internally generated intangibles

IFRS The cost comprises all expenditure that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.

Indo GAAP Similar to **IFRS**.

US GAAP Costs that are not specifically identifiable and that have indeterminable lives or that are inherent in a continuing business and related to an entity as a whole should be recognised as an expense when incurred.

Subsequent measurement – acquired and internally generated intangibles

IFRS Intangible assets subject to amortisation are carried at historical cost less accumulated amortisation/impairment, or at fair value less subsequent amortisation/impairment. Intangible assets not subject to amortisation are carried at historical cost unless impaired. Subsequent revaluation of intangible assets to their fair value must be based on prices in an active market. Where an entity adopts this treatment (extremely rare in practice), the revaluations must be regularly performed and the revaluation of the entire class of intangible assets must take place at the same time.

A. Intangible assets (continued)

Subsequent measurement – acquired and internally generated intangibles (continued)

Indo GAAP Intangible assets are subsequently measured at historical cost less accumulated amortisation/impairment. Revaluations are not allowed.

US GAAP Initial recognition is similar to **IFRS**. Revaluation is not allowed. Intangible assets subject to amortisation are carried at amortised cost unless impaired. Intangible assets not subject to amortisation are carried at historical cost unless impaired.

Amortisation – acquired and internally generated intangibles

IFRS Amortised if the asset has a finite life. Do not amortise if the asset has an indefinite life, but test at least annually for impairment. There is no presumed maximum life.

Indo GAAP There is a rebuttable presumption that the useful life of an intangible asset does not exceed 20 years from the date on which the asset is available for use. In very rare cases an entity may demonstrate that an intangible asset has a finite useful life in excess of 20 years, but an indefinite useful life is not permitted.

US GAAP Similar to **IFRS**.

Impairment – acquired and internally generated intangibles

IFRS Requires impairment reviews whenever changes in events or circumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews required, for intangible assets with indefinite useful lives and for assets not yet ready for use. Reversals of impairment losses are allowed under specific circumstances.

Indo GAAP Similar to **IFRS**, with the addition that annual reviews are also required for intangibles amortised over a period of more than 20 years. There is no need to review intangible assets with indefinite useful lives for impairment since **Indonesian GAAP** does not acknowledge such assets.

US GAAP Similar to **IFRS**, except reversals of impairment losses are prohibited.

REFERENCES: **IFRS:** IAS 36, IAS 38, SIC-32. **Indonesian GAAP:** PSAK 19 (Revised 2000), PSAK 22. **US GAAP:** FAS 86, FAS 142, APB 17, SOP 98-1.

B. Property, plant and equipment

Definition

IFRS Property, plant and equipments (PPE) are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes. They are expected to be used during more than one period.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Recognition

IFRS General **IFRS** asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Initial measurement

IFRS Comprises the costs directly attributable to bringing the asset to the location and working condition necessary for it to be capable of operating in the way management intends, including costs of testing whether the asset is functioning properly. Start-up and pre-production costs must not be capitalised unless they are a necessary part of bringing the asset to its working condition. The following are also included in the initial measurement of the asset:

- the costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of employee benefits arising from construction or acquisition of the asset;
- costs of testing whether the asset is functioning properly;
- professional fees; and
- fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency (see p101).

The entity has the policy option to include the borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p73);

Government grants received in connection with acquisition of PPE may be offset against the cost (see p90).

B. Property, plant and equipment (continued)

Initial measurement (continued)

Indo GAAP Similar to **IFRS**, except that only the following components are mentioned as examples of directly attributable costs:

- the costs of site preparation;
- initial delivery and handling costs;
- installation costs;
- professional fees; and

Capitalisation of borrowing costs is mandatory, rather than optional, for qualifying assets. Hedge gains/losses on qualifying cash flow hedges are not included in the initial measurement of the asset. **Indonesian GAAP** does not provide specific guidance for government grants.

US GAAP Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs must be included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation must be recognised in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the asset's carrying amount.

Recent proposals – US GAAP

The FASB issued an exposure draft of an Interpretation of FAS 143 in June 2004. The ED proposes accounting for conditional asset retirement obligations (for example, obligations to remove and dispose of asbestos). In particular, it would clarify that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of FAS 143.

Recent proposals – Indonesian GAAP

The Indonesian Accounting Standards Board has recently issued an exposure draft that is similar to IAS 16. This draft is expected to be finalised sometime in mid-2005 and applicable in 2006, however earlier adoption is encouraged.

Subsequent expenditure

IFRS Subsequent maintenance expenditure is expensed as incurred. Replacement of parts can be capitalised when new criteria are met. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where the recognition criteria are satisfied. The net book value of any replaced component would be expensed at the time of overhaul.

Indo GAAP Similar to **IFRS**, subsequent maintenance expenditure is expensed as incurred. But guidance on subsequent expenditure is not as comprehensive as that under **IFRS**. For example, there is no detailed guidance on the cost of a major inspection or overhaul. However, current proposal is similar to **IFRS**.

US GAAP Similar to **IFRS**.

B. Property, plant and equipment (continued)

Depreciation

IFRS The depreciable amount of an item of PPE must be allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Any change in the depreciation method used is treated as change in accounting estimate reflected in the depreciation charge for the current and prospective periods.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**, except that **US GAAP** classifies a change in the depreciation method for previously recorded assets as a change in accounting principle. The cumulative effect of the change is then reflected in the current year's income statement. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.

Subsequent measurement

IFRS The cost model requires an asset to be carried at cost less accumulated depreciation and impairment. However, revaluation of PPE at fair value is permitted under the alternative treatment.

The revaluation model must be applied to an entire class of assets.

The increase of an asset's carrying amount as a result of a revaluation must be credited directly to equity under the heading 'revaluation surplus', unless it reverses a revaluation decrease for the same asset, previously recognised as an expense; then it must be recognised in the income statement. A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense.

Disclosures of the historical cost equivalent (cost and accumulated depreciation) of assets carried at revalued amounts are required.

Indo GAAP The existing standard does not address revaluations since revaluations are allowed only in very limited circumstances (i.e. when allowed by a government regulation). However, current proposal is similar to **IFRS**.

US GAAP PPE should be carried at cost less accumulated depreciation and impairment losses. Revaluation to fair value is not permitted. Consistent with **IFRS**, impairment testing is performed whenever events or changes in circumstances suggest the carrying value of an asset is not recoverable.

Frequency of revaluations

IFRS Revaluations must be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all PPE when the revaluation policy is adopted. Management must consider at each year-end whether fair value is materially different from carrying value.

Indo GAAP No specific guidance. However, current proposal is similar to **IFRS**.

US GAAP Not applicable.

B. Property, plant and equipment (continued)

Impairment of revalued PPE

IFRS An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit must be accounted for in the income statement.

Indo GAAP No specific guidance. However, current proposal is similar to **IFRS**.

US GAAP All impairments should be recognised in the income statement.

REFERENCES: IFRS: IAS 16, IAS 23, IAS 36. **Indonesian GAAP:** PSAK 16, ED PSAK 16 (Revised 2004), PSAK 17, PSAK 26 (Revised 1997), PSAK 48. **US GAAP:** FAS 34, FAS 143, FAS 144, ARB 43, APB 6.

C. Non-current assets held for sale

IFRS An entity should classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition and its sale must be *highly probable*. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Once classified as held for sale, the asset should be measured at the lower of its carrying amount and fair value less costs to sell.

Indo GAAP No specific guidance. However, the carrying amounts of assets and liabilities of a discontinuing operation should be disclosed separately.

US GAAP Similar to **IFRS**.

REFERENCES: IFRS: IFRS 5. **Indonesian GAAP:** PSAK 58 (Revised 2003). **US GAAP:** FAS 144.

D. Leases – lessor accounting

Classification

The concepts behind lease classification are similar in all three frameworks. However, substance rather than legal form is applied under **IFRS**, while extensive form-driven requirements are present in **US GAAP** and **Indonesian GAAP**.

A finance (capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee. **IFRS** and **US GAAP** frameworks provide indicators for determining the classification of a lease. These are presented in the table below.

INDICATOR	IFRS	US GAAP
Normally leads to a finance lease		
Ownership is transferred to the lessee at the end of the lease term	Indicator of a finance lease.	Indicator of a finance lease.
A bargain purchase option exists	Indicator of a finance lease.	Indicator of a finance lease.
The lease term is for the majority of the leased asset's economic life	Indicator of a finance lease.	Specified as equal to or greater than 75% of the asset's life.
The present value of minimum lease payments is equal to substantially all the fair value of the leased asset	Indicator of a finance lease.	Specified as 90% of the fair value of the property less any investment tax credit retained by the lessor.
The leased assets are of a specialised nature such that only the lessee can use them without major modification	Indicator of a finance lease.	Not specified.
Could lead to a finance lease		
On cancellation, the lessor's losses are borne by the lessee	Indicator of a finance lease.	Not specified.
Gains and losses from the fluctuation in the fair value of the residual fall to the lessee	Indicator of a finance lease.	Not specified.
The lessee has the ability to continue the lease for a secondary period at below market rental	Indicator of a finance lease.	Not specified.

On the other hand, **Indonesian GAAP** framework provides criteria for determining the classification of a finance lease. All of the following criteria must be met for a lease to be classified as a finance lease:

- the lessee has the option to purchase the leased asset at the end of the lease period at a price agreed upon at the inception of the lease agreement;
- the sum of all periodic lease payments made by the lessee, plus the residual value will cover the acquisition price of the leased capital goods and the related interest, which represents the leasing company's profit (full payout lease); and

D. Leases – lessor accounting (continued)

Classification (continued)

- a minimum lease period of 2 years.

If any of the above criteria is not met, the lease is classified as an operating lease.

Recognition of the investment in the lease

All three frameworks require the amount due from a lessee under a finance lease to be recognised as a receivable at the amount of the net investment in the lease. At any point in time, this will comprise the total of the future minimum lease payments less gross earnings allocated to future periods. Minimum lease payments for a lessor include guarantees from a third party related to the leased assets under **IFRS** and **Indonesian GAAP**. **US GAAP** excludes these guarantees. The present value of minimum lease payments would generally use the implicit rate in the lease for discounting under **IFRS**. **Indonesian GAAP** and **US GAAP** would generally use the market interest rate and the incremental borrowing rate, respectively.

The gross earnings are allocated between receipt of the capital amount and receipt of finance income on a basis so as to provide a constant rate of return. Initial direct costs are to be amortised over the lease term. **IFRS**, **Indonesian GAAP** and **US GAAP** require use of the net investment method to allocate gross earnings, which excludes the effect of cash flows arising from taxes and financing relating to a lease transaction. An exception to this is for leveraged leases under **US GAAP** where tax cash flows are included.

Operating leases

All three frameworks require an asset leased under an operating lease to be recognised by a lessor as PPE and depreciated over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.

Incentives

Both **IFRS** and **US GAAP** require the lessor to recognise the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished.

Indonesian GAAP does not specifically address the accounting treatment for incentives; however, the **IFRS** or **US GAAP** approach is acceptable.

Recent proposals – IFRS

IFRIC issued draft Interpretation D3 on IAS 17 in January 2004. This draft Interpretation proposes that when an arrangement that does not take the legal form of a lease, but conveys a right to use an item (for example, an item of PPE) for an agreed period of time in return for a payment or series of payments, it should be accounted for in accordance with IAS 17.

REFERENCES: **IFRS:** IAS 17. **Indonesian GAAP:** PSAK 30. **US GAAP:** FAS 13, FAS 66, FAS 98, FTB 88-1.

E. Impairment of assets

Recognition

IFRS An entity should assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Assets classified as held for disposal must be measured at the lower of the carrying amount or fair value less selling costs.

Indo GAAP Similar to **IFRS**. However, there is no specific guidance for assets held for disposal.

US GAAP Management should consider each period whether there is reason to suspect that long-lived assets (asset groups) might not be recoverable. Several impairment indicators exist for making this assessment. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If impairment exists, the entity must measure impairment by comparing the asset's carrying value to its fair value. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered. Assets classified as held for disposal must be measured at the lower of the carrying amount or fair value less selling costs.

Measurement

IFRS The impairment loss is the difference between the assets's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset.

Indo GAAP Similar to **IFRS**.

US GAAP The impairment loss is measured as the excess of the carrying amount over the asset's fair value, being either market value (if an active market for the asset exists), the best information available in the circumstances including the price for similar assets, or the sum of discounted future cash flows or other valuation techniques, using market assumptions. For assets to be disposed of, the loss recognised is the excess of the asset's carrying amount over its fair value less cost to sell. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell. Such assets are not depreciated or amortised during the selling period.

Reversal of impairment loss

IFRS Requires reversal of impairment losses when there has been a change in economic conditions or in the expected use of the asset.

Indo GAAP Similar to **IFRS**.

US GAAP Prohibits reversals of impairment losses for assets to be held and used, as the impairment loss results in a new cost basis for the asset. Subsequent revisions to the carrying amount of an asset to be disposed of must be reported as adjustments to the asset's carrying amount, but limited by the carrying amount at the date on which the decision to dispose of the asset is made.

E. Impairment of assets (continued)

REFERENCES: **IFRS:** IAS 16, IAS 36. **Indonesian GAAP:** PSAK 48. **US GAAP:** FAS 143, 144.

F. Capitalisation of borrowing costs

Recognition

IFRS An entity can choose to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice should be applied consistently. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

Indo GAAP Requires capitalisation of borrowing costs if applicable. **Indonesian GAAP** defines a qualifying asset in a similar manner to **IFRS**.

US GAAP Requires capitalisation of borrowing costs, including the amortisation of discount premium and issue costs on debt, if applicable. **US GAAP** defines a qualifying asset in a similar manner to **IFRS**, except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee is actively preparing for its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

Measurement

IFRS The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences, but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the asset's production is netted with the interest to be capitalised. Capitalisation of interest must cease once the asset is ready for its intended use or sale.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**, except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset cannot be netted against interest as appropriate for **IFRS**, except for certain governmental or private company that finance qualifying assets through tax-exempt borrowings. In these cases, the interest costs to be capitalised are required to be reduced by the interest income.

REFERENCES: **IFRS:** IAS 23. **Indonesian GAAP:** PSAK 26 (Revised 1997). **US GAAP:** FAS 34, FAS 62.

G. Investment property

Definition

IFRS Property (land and buildings) held in order to earn rentals and/or for capital appreciation. Does not include owner-occupied property or property held for sale.

Indo GAAP Investments in land and buildings that are not being used or operated by the investing company.

US GAAP There is no specific guidance for investment property, other than specific rules relating to entities qualifying as investment companies under the Investment Companies Act of 1940. For entities that are not investment companies, such property is accounted for in the same way as PPE.

Initial measurement

IFRS The same cost-based measurement should be used for both acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property must be accounted for as PPE until construction is complete, when it becomes an investment property. Property under finance or operating lease can also be classified as investment property.

Indo GAAP No detailed guidance. Generally initial measurement is accounted for in the same way as PPE.

US GAAP No specific rules for investment property. Such property is accounted for in the same way as PPE.

Subsequent measurement

IFRS The entity can choose between the fair value model and depreciated cost for all investment property. When fair value is applied, the gain or loss arising from a change in the fair value is recognised in the income statement and the carrying amount is not depreciated.

Indo GAAP Investments property is classified as long term investments, unless held for a period of one year or less. Investment property is presented separately from PPE and is not depreciated.

US GAAP The depreciated cost model must be applied.

Transfers to/from investment property

IFRS Where there is a change in use of the investment property, there is detailed guidance for subsequent classification. Investment property to be sold is re-classified as inventories, and investment property to be owner-occupied is reclassified as PPE.

Indo GAAP No specific guidance.

US GAAP Not applicable.

G. Investment property (continued)

Frequency and basis of revaluations

IFRS The fair value of investment property must reflect the actual market conditions and circumstances as of the balance sheet date. The standard does not require the use of an independent and qualified valuer, but the use is encouraged. Revaluations must be made with sufficient regularity that the carrying amount does not differ materially from fair value.

Indo GAAP No requirement to reflect actual market conditions.

US GAAP Not applicable.

REFERENCES: **IFRS:** IAS 40. **Indonesian GAAP:** PSAK 13, PSAK 16. **US GAAP:** ARB 43, APB 6.

H. Inventories

Definition

All three frameworks define inventories as assets that are: held for sale in the ordinary course of business; in the process of production or for sale in the form of materials; or supplies to be consumed in the production process or in rendering services.

Measurement

IFRS Carried at the lower of cost or net realisable value (sale proceeds less all further costs to bring the inventories to completion). Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down. Inventories of producers and dealers of agricultural and forest products and mineral ores are allowed at net realisable value even if above cost.

Indo GAAP Similar to **IFRS**.

US GAAP Broadly consistent with **IFRS**, in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realisable value (i.e. estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal) and a lower limit of net realisable value less a normal profit margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis. Similar for inventories of agricultural and forest products and mineral ores. Mark-to-market inventory accounting is allowed for refined bullion of precious metals.

H. Inventories (continued)

Formula for determining cost

METHOD	IFRS	Indonesian GAAP	US GAAP
LIFO	Prohibited	Permitted	Permitted
FIFO	Permitted	Permitted	Permitted
Weighted average cost	Permitted	Permitted	Permitted

Consistency of the cost formula for similar inventories

IFRS Requires an entity to use the same cost formula for all inventories that have a similar nature and use to the entity.

Indo GAAP No specific requirement to use the same cost formula; however, **IFRS** approach would be recommended.

US GAAP Similar to **IFRS**.

Allocation of fixed overheads

IFRS Any allocation of fixed production overheads is based on normal capacity levels, with unallocated overheads expensed as incurred.

Indo GAAP Similar to **IFRS**.

US GAAP Idle capacity costs may also be absorbed into inventory costs in limited circumstances.

REFERENCES: **IFRS:** IAS 2. **Indonesian GAAP:** PSAK 14. **US GAAP:** ARB 43.

I. Biological assets

IFRS Should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. All changes in fair value should be recognised in the income statement in the period in which they arise.

Indo GAAP No specific guidance, in practice historical cost is used. However, there is a draft, still at an early stage, based on IAS 41.

US GAAP Not specified, historical cost is generally used.

REFERENCES: **IFRS:** IAS 41. **Indonesian GAAP:** PSAK 14.

J. Financial assets

IFRS outlines the recognition and measurement criteria for all financial assets defined to include derivatives. The guidance in **IFRS** is broadly consistent with **US GAAP**.

Indonesian GAAP does not provide guidance for financial assets in general. However, there are various standards dealing with certain financial assets such as warrants, investments in securities and derivatives. Those standards are in general consistent with **US GAAP**.

Definition

IFRS and **US GAAP** define a financial asset in a similar way, to include: cash; a contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions that are potentially favourable; and an equity instrument of another entity. Financial assets include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). See p99 for accounting for derivatives.

Indonesian GAAP does not provide a definition of financial assets but in practice **IFRS** or **US GAAP** definition is used.

Recognition and initial measurement

IFRS and **US GAAP** require an entity to recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. The initial measurement of the financial asset is its fair value, which is normally the consideration given, including directly related transaction costs.

There is no specific guidance under **Indonesian GAAP**; however, **IFRS** or **US GAAP** approach is acceptable.

CLASSIFICATION	IFRS	Indonesian GAAP	US GAAP
Financial assets at fair value through profit or loss			
This category has two sub-categories: financial assets held for trading, and those designated to the category at inception. Any financial asset may, on initial recognition, be classified as fair value through profit or loss.	An irrevocable decision to classify a financial asset as fair value through profit or loss.	No such option.	No such option.
Held-for-trading financial assets			
Debt and equity securities held for sale in the short-term. Includes derivatives.	The intention must be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short-term profit-taking. Subsequent measurement at fair value. Unrealised and realised gains and losses recognised in the income statement.	Similar to IFRS ; frequent buying and selling usually indicates a trading instrument. Similar to IFRS .	Similar to IFRS ; frequent buying and selling usually indicates a trading instrument. Similar to IFRS .

J. Financial assets (continued)

Recognition and initial measurement (continued)

CLASSIFICATION	IFRS	Indonesian GAAP	US GAAP
Held-to-maturity investments			
Financial assets held with a positive intent and ability to hold to maturity. Includes assets with fixed and determinable payments and maturities. Does not include equity securities because they have an indefinite life.	Entity must have the “positive intent and ability” to hold a financial asset to maturity not simply a present intention. When an entity sells more than an insignificant amount of assets, classified as held-to-maturity, it is prohibited from using the held-to-maturity classification for two full annual reporting periods (known as tainting). The entity must also reclassify all its held-to-maturity assets as available-for-sale assets. Recognised at amortised cost using the effective yield method.	Still rely on present intention. No tainting rule. Similar to IFRS .	Similar to IFRS . Similar to IFRS ; however, US GAAP is silent about whether assets cease to be tainted. For listed companies, the SEC staffs generally believe that the taint period for sales or transfers of held-to-maturity securities should be two years. Similar to IFRS .
Loans and receivables			
Financial assets created by providing money, goods and services directly to the borrower e.g. bonds, customer loans and trade receivables. May include loans and receivables purchased, provided their intention is similar.	Reported at amortised cost.	No specific guidance; however, IFRS approach is acceptable.	All debts receivable that are not securities are recognised at amortised cost.
Available-for-sale financial assets			
All debt/equity financial assets not covered by above categories. Includes equity securities, except those classified as held-for-trading.	Reported at fair value. Changes in fair value are recognised net of tax effects in equity and recycled to the income statement when sold, impaired or collected.	Similar to IFRS . Similar to IFRS .	As for IFRS , includes debt/equity securities not covered by above categories, but excludes unlisted equity securities that are carried at cost. Changes in fair value reported in other comprehensive income.

J. Financial assets (continued)

Reclassification of assets between categories

IFRS	<p>Reclassifications between categories are relatively uncommon under IFRS and are prohibited into and out of the fair value through profit or loss category.</p> <p>Reclassifications from the held-to-maturity category as a result of a change of intent or ability are treated as sales and, other than in exceptional circumstances, result in the whole category being 'tainted'. The most common reason for a reclassification out of the category, therefore, is when the whole category is tainted and has to be reclassified as available-for-sale for two years. In such circumstances, the assets are re-measured to fair value, with any difference recognised in equity.</p> <p>An instrument may be reclassified into the category where the tainted held-to-maturity portfolio has been 'cleansed'. In this case, the financial asset's carrying value at the date of reclassification is recharacterised becomes its amortised cost. Any unrealised gains and losses already recognised remain in equity until the asset is impaired or derecognised.</p>
Indo GAAP	<p>Reclassifications between categories are recognised at fair values. In addition:</p> <ul style="list-style-type: none"> For securities transferred from “trading” category: The related unrealised gains or losses at the date of transfer are already recorded in income, thus it remains there. For securities transferred to “trading category”: Unrealised gains or losses at the date of transfer are recognised in income. For transfers from “available for sale” into “held to maturity” categories: Unrealised gains or losses continue to be reported in equity, but amortised in a manner similar to a discount or premium. For transfers from “held to maturity” into “available for sale” categories: Unrealised gains or losses recognised in equity. There is no tainting rule.
US GAAP	<p>The following rules apply under US GAAP to the transfer of financial assets between categories:</p> <ul style="list-style-type: none"> Held-to-maturity investments An entity must reclassify a financial asset from the held-to-maturity category when there has been a change of intent or ability, or there has been evidence of short-term profit-taking. Where the reclassification is to held-for-trading, the asset must be re-measured to fair value with the difference recognised in the income statement. Where the financial asset is reclassified from held-to-maturity to available-for-sale, the asset must be re-measured to fair value with the difference recognised in equity. Similar to IFRS, such a transfer may trigger tainting provisions. If an entity transfers an asset into the held-to-maturity category, the asset's fair value at the date of reclassification becomes its amortised cost. Any previous gain or loss recognised in equity must be amortised over the remaining life of the held-to-maturity investment. Any difference between the new amortised cost and the amount due at maturity must be treated as an adjustment of yield. Available-for-sale financial assets Transfers from (to) available-for-sale into (or out of) trading should be rare. The phrase 'should be rare' has been interpreted by the SEC as 'never should occur'.

J. Financial assets (continued)

Impairment

All **IFRS** and **US GAAP** have similar requirements for the impairment of financial assets. **IFRS** requires an entity to consider impairment when there is an indicator of impairment, such as: the deterioration in the creditworthiness of a counterparty; an actual breach of contract; a high probability of bankruptcy; the disappearance of an active market for an asset, or in the case of an investment in an equity instrument, whether there has been a significant or prolonged decline in the fair value of that investment below its cost. **Indonesian GAAP** provides less detailed guidance for determining impairment of financial assets; however, **IFRS** approach is acceptable.

US GAAP requires the write-down of financial assets when an entity considers a decline in fair value to be 'other than temporary'. Indicators of impairment are: the financial health of the counterparty; whether the investor intends to hold the security for a sufficient period to permit recovery in value, the duration and extent that the market value has been below cost and the prospects of a forecasted market price recovery.

Recent proposals – IFRS

The IASB issued an exposure draft of proposed amendments to IAS 39, Financial Instruments Recognition and Measurement The Fair Value Option, in April 2004. This exposure draft proposes to limit the use of the fair value option to specific circumstances and only when the fair value is verifiable.

Recent proposals – US GAAP

The FASB issued an exposure draft on fair value measurements in June 2004. The ED will enhance the current guidance on fair value measurements by establishing a measurement framework for financial and non-financial assets and liabilities that are measured at fair value under other authoritative pronouncements.

IFRS and **US GAAP** require that, for financial assets carried at amortised cost, the impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount (present value of expected future cash flows discounted at the instrument's original effective interest rate). **Indonesian GAAP** also requires recognition of any impairment loss, which is defined as the difference between the asset's amortised cost and its fair value.

Under **IFRS** and **US GAAP**, for financial assets carried at fair value, the recoverable amount is usually based on quoted market prices or, if unavailable, the present value of the expected future cash flows discounted at the current market rate. If a loss has been deferred in equity, it must be recycled to the income statement on impairment.

Under **US GAAP** and **Indonesian GAAP**, market recoveries on available-for-sale debt securities are not recognised as they occur, rather the changes in market value are treated as a basis adjustment and amortised. **US GAAP** and **Indonesian GAAP** prohibit the reversal of an impairment charge on available-for-sale equity securities. **IFRS** requires changes in value of available-for-sale debt securities, identified as reversals of previous impairment, to be recognised in the income statement. Similar to **US GAAP** and **Indonesian GAAP**, **IFRS** prohibits reversals of impairment on available-for-sale equity securities.

J. Financial assets (continued)

Derecognition

IFRS A financial asset (or part) is derecognised when:

- the rights to the asset's cash flows expire;
- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
 - no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected,
 - prohibition from selling or pledging the asset other than as security to the eventual recipients for the obligation to pass through cash flows,
 - obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

If an entity transfers substantially all the risks and rewards of ownership of the asset (for example, an unconditional sale of a financial asset), the entity derecognises the asset. If an entity retains substantially all the risks and rewards of ownership of the asset, it continues to recognise the asset (the transaction is accounted for as a collateralised borrowing). If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, the entity has to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. The asset is derecognised if the entity has lost control. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement.

If the asset is derecognised on sale to a special purpose entity (SPE), there may be a requirement to consolidate that SPE.

On derecognition, the difference between the amount received and the carrying amount of the asset is recognised in the income statement. Any fair value adjustments on the assets formerly reported in equity are recycled to the income statement. Any new assets or liabilities arising from the transaction are recognised at fair value.

Indo GAAP Similar to **IFRS**, where an entity surrenders control over all or a portion of a financial asset sold, the asset may be derecognised. Otherwise, the transfer is accounted for as a borrowing secured by the asset 'sold'.

US GAAP Similar to **IFRS**, where an entity surrenders control over all or a portion of a financial asset sold, the asset may be derecognised. Otherwise, the transfer is accounted for as a borrowing secured by the asset 'sold'. In certain circumstances, **US GAAP** requires legal isolation of financial assets from the transferor (even in bankruptcy or receivership) as a necessary condition for derecognition.

REFERENCES: **IFRS:** IAS 39, SIC-12. **Indonesian GAAP:** PSAK 21, PSAK 43, PSAK 48, PSAK 50, PSAK 55. **US GAAP:** FAS 115, FAS 133, FAS 140, EITF 03-01.

Liabilities

A. Provisions

IFRS and **Indonesian GAAP** have a specific standard on accounting for provisions generally, while **US GAAP** has several standards addressing specific provisions - for example, environmental liabilities and restructuring costs. All three frameworks prohibit recognition of provisions for future costs, including costs associated with compliance with proposed but not yet effective legislation.

Recognition

IFRS Requires recognition of a provision only when:

- the entity has a present obligation to transfer economic benefits as a result of past events;
- it is probable that such a transfer will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity no realistic alternative to settle the obligation created by the event. If the entity can avoid the future expenditure by its future actions, it has no present obligation, and a provision is not recognised.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**. However, the meaning of probable conveys a higher threshold than 'more likely than not'.

Measurement

IFRS The amount recognised as a provision must be the best estimate of the minimum expenditure required to settle the present obligation at the balance sheet date. The entity must discount the anticipated cash flows using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and those risks specific to the liability if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the 'mid-point' of the range must be used to measure the liability.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**. However, if a range of estimates is present and no amount in the range is more likely than any other amount in the range, the 'minimum' (rather than the mid-point) amount must be used to measure the liability. A provision must only be discounted when the timing of the cash flows is fixed. (Differences may arise in the selection of the discount rate, particularly in the area of asset retirement obligations.)

A. Provisions (continued)

Restructuring provisions

IFRS In the case of a restructuring, a present obligation exists only when the entity is 'demonstrably committed' to the restructuring. An entity is usually demonstrably committed when there is a binding sale agreement (legal obligation), or when the entity has a detailed formal plan for the restructuring and is unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). However, a current provision is unlikely to be justified if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**. However, management is not allowed to update or withdraw from the plan. **US GAAP** prohibits the recognition of a liability based solely on an entity's commitment to a plan. Recognition of a provision for one-time termination benefits requires communication of the details of the plan to the affected employees. Initial liabilities for restructurings that meet the definition of a liability are measured at fair value and must be evaluated each reporting period, with subsequent changes in fair value measured using an interest allocation approach.

Onerous contracts

IFRS Prohibits provisions for future operating losses. However, if an entity is party to a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract), the present obligation under the contract must be recognised and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant.

Indo GAAP Similar to **IFRS**.

US GAAP A liability for costs to terminate a contract before the end of its term should be recognised and measured at fair value when the entity terminates the contract in accordance with the contract terms (for example, when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty). A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognised and measured at its fair value when the entity ceases to use the right conveyed by the contract. A common example relates to leasehold property that is no longer being used. The liability must be reduced by estimated sub-lease rentals that could reasonably be obtained for the property (consistent with **IFRS**).

REFERENCES: **IFRS:** IAS 37. **Indonesian GAAP:** PSAK 57. **US GAAP:** FAS 5, EITF 88-10, FAS 143, FAS 146, SOP 96-1.

B. Contingencies

Contingent asset

IFRS A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. The item is recognised as an asset when the realisation of the associated benefit, such as an insurance recovery, is virtually certain.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**, but the threshold for recognising insurance recoveries is lower. The recovery is required to be probable (the future event or events are likely to occur) rather than virtually certain as under **IFRS**.

Contingent liability

IFRS A possible obligation whose outcome will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control. It can also be a present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits, or the amount of the outflow cannot be reliably measured. Contingent liabilities are disclosed unless the probability of outflows is remote.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**, requiring an accrual for a loss contingency if it is probable (defined as likely) that there is a present obligation resulting from a past event and an outflow of economic resources is reasonably estimable.

REFERENCES: **IFRS:** IAS 37. **Indonesian GAAP:** PSAK 57. **US GAAP:** FAS 5, SOP 96-1.

Recent proposals – US GAAP

The FASB issued an exposure draft of an Interpretation of FAS 143 in June 2004. The ED proposes accounting for conditional asset retirement obligations (for example, obligations to remove and dispose of asbestos). In particular, it would clarify that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of FAS 143.

C. Deferred tax

Although all three frameworks require full provision for deferred tax, there are differences in the methodology as set out in the table below.

ISSUE	IFRS	Indonesian GAAP	US GAAP
General considerations			
General approach	Full provision.	Similar to IFRS .	Similar to IFRS .
Basis for deferred tax assets and liabilities	Temporary differences – i.e. the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Similar to IFRS .	Similar to IFRS .
Exceptions (i.e. deferred tax is not provided on the temporary difference)	Goodwill, which is not deductible for tax purposes, does not give rise to a taxable temporary difference. Similarly, negative goodwill does not give rise to a deductible temporary difference. Initial recognition of an asset or liability in a transaction that: (i) is not a business combination, and (ii) affects neither accounting profit nor taxable profit at the time of the transaction.	Similar to IFRS .	Similar to IFRS . Since negative goodwill is not carried on the balance sheet under US GAAP , it does not create a book/tax difference. No initial recognition exemption. Special requirements apply in computing deferred tax on leveraged leases.
Specific applications			
Unrealised intra-group profits – for example, on inventory	Deferred tax recognised at the buyer's tax rate.	Not specifically stated.	The buyer is prohibited from recognising deferred taxes. Any income tax effects to the seller (including taxes paid and tax effects of any reversal of temporary differences) as a result of the inter-company sale are deferred and then recognised upon ultimate sale to a third party.
Revaluation of PPE and intangible assets	Deferred tax recognised in equity.	Similar to IFRS .	Not applicable, as revaluation is prohibited.
Revaluation of financial assets	Deferred tax is recognised in the income statement unless changes in the carrying amount of available-for-sale assets are taken to equity, in which case deferred tax is taken to equity.	Similar to IFRS .	All changes in the carrying amount of available-for-sale assets are taken to equity; therefore, deferred tax is taken to equity. Subsequent statutory rate changes and certain valuation allowance changes are recognised in the income statement.

C. Deferred tax (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Specific applications (continued)			
Foreign non-monetary assets/liabilities when the reporting currency is the functional currency	Deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	Not specifically stated.	No deferred tax is recognised for differences related to assets and liabilities that are re-measured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.
Investments in subsidiaries – treatment of undistributed profit	Deferred tax is recognised except when the parent is able to control the distribution of profit and if it is probable that the temporary difference will not reverse in the foreseeable future.	Not specifically stated.	Deferred tax is required on temporary differences arising after 1992 relating to investments in domestic subsidiaries unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.
Investments in joint ventures – treatment of undistributed profit	Deferred tax is recognised except when the venturer can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Not specifically stated.	Deferred tax is required on temporary differences arising after 1992 relating to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that meet the indefinite reversal criterion.
Investments in associates – treatment of undistributed profit	Deferred tax is recognised except when the investor can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Not specifically stated.	Deferred tax is always recognised on temporary differences relating to investment in associates (whether domestic or foreign).

C. Deferred tax (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Measurement of deferred tax			
Share-based compensation	If a tax deduction exceeds cumulative share-based compensation expense, deferred tax calculations based on the excess deduction are recorded directly in equity. If the tax deduction is less than or equal to cumulative share-based compensation expense, deferred taxes arising are recorded in income.	There is no specific guidance. However, approach similar to that under IFRS is applicable.	If the ultimate actual tax benefit available to the issuer exceeds the deferred tax asset recorded, the excess benefit (known as a 'windfall' tax benefit) is credited directly to shareholders' equity. If the ultimate tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders equity to the extent of prior windfall tax benefits, and as a charge to the tax expense thereafter.
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted.	Similar to IFRS .	Use of substantive enacted rates not permitted. Tax rate and tax laws must have been enacted.
Recognition of deferred tax assets	A deferred tax asset must be recognised if it is probable that sufficient taxable profit will be available against which the temporary difference can be utilised.	Similar to IFRS .	A deferred tax asset is recognised in full but is then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realised.
Discounting	Prohibited.	Prohibited.	Prohibited.
Business combinations – acquisitions			
Step-up of acquired assets/liabilities to fair value	A deferred tax is provided unless the tax base of the asset is also stepped up.	Similar to IFRS .	Similar to IFRS .
Previously unrecognised tax losses of the acquirer	A deferred tax asset is recognised if, as a result of the acquisition, the recognition criteria for the deferred tax asset are met. Offsetting credit is recorded in income.	Similar to IFRS , except the offsetting credit is recorded against goodwill.	Similar to IFRS , except the offsetting credit is recorded against goodwill.
Tax losses of the acquiree	Similar requirements as for the acquirer except the offsetting credit are recorded against goodwill.	Similar to IFRS .	Similar to IFRS .

C. Deferred tax (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Business combinations – acquisitions (continued)			
Post-acquisition recognition of acquiree's tax losses that existed at the date of acquisition	Recognition of deferred tax asset that reduces goodwill and then reduces tax expense. No time limit for recognition of this deferred tax asset.	Similar to IFRS . However, such recognition is limited to end of first accounting period (excluding interim period). Then the adjustment should be recognised as income or expense rather than an adjustment to goodwill.	Recognition of deferred tax asset reduces goodwill, then reduces non-current intangible assets, and then reduces tax expense. No time limit for recognition of this deferred tax asset.
Presentation of deferred tax			
Offset of deferred tax assets and liabilities	Permitted only when the entity has a legally enforceable right to offset and the balance relates to tax levied by the same authority.	No specific guidance for offset of deferred tax assets and liabilities; however, practice is similar to IFRS . Current tax assets should be offset with current tax liabilities.	Similar to IFRS .
Current/non-current	The deferred tax assets and liabilities must only be classified as non-current.	Similar to IFRS .	Deferred tax assets and liabilities must either be classified as current or non-current based on the classification of the related non-tax asset or liability for financial reporting. Tax assets not associated with an underlying asset or liability are classified based on the expected reversal period.
Reconciliation of actual and expected tax expense	Required. Computed by applying the applicable tax rates to accounting profit, disclosing also the basis on which the applicable tax rates are calculated.	Similar to IFRS .	Required for public companies only. Calculated by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.

REFERENCES: **IFRS:** IAS 12. **Indonesian GAAP:** PSAK 22, PSAK 46. **US GAAP:** FAS 109.

D. Government grants

IFRS Government grants (or contributions) received as compensation for expenses already incurred are recognised in the income statement once the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants must be deferred and matched with the depreciation on the asset for which the grant arises.

Grants that relate to recognised assets must be presented in the balance sheet either as deferred income or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognised as a reduction of depreciation. Specific rules apply for agricultural assets.

Indo GAAP No specific guidance.

US GAAP Similar to **IFRS**, except of government grants should be recognised as revenue when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are actually met under **US GAAP**. Contributions of long-lived assets or for the purchase of long-lived assets are reported in the period received.

Grants – agricultural assets

IFRS An unconditional government grant related to a biological asset measured at its fair value must be recognised in the income statement when the grant becomes receivable. If a government grant relating to a biological asset measured at its fair value is conditional, the grant must be recognised when the conditions are met. If a grant relates to a biological asset measured at cost, the accounting treatment specified for government grants generally is applied.

Indo GAAP Currently there is no specific guidance. However, there is a plan to adopt an approach similar to **IFRS**.

US GAAP Not specified.

REFERENCES: **IFRS:** IAS 20, IAS 41. **US GAAP:** FAS 116.

E. Leases – lessee accounting

Finance leases

IFRS Requires recognition of an asset held under a finance lease (see classification criteria on p70) with a corresponding obligation to pay future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, the latter is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease must normally be used to calculate the present value of the MLPs. If the implicit rate is unknown, the lessee's incremental borrowing rate may be used.

E. Leases – lessee accounting (continued)

Finance leases (continued)

Indo GAAP An asset is recognised with a corresponding obligation at an amount equal to the present value of all lease payments plus residual value (or purchase option) to be paid by the lessor at the end of the lease term. The rate used to discount the present value of payments is the lessor's rate or the prevailing rate at the inception of the lease.

US GAAP Similar to **IFRS**, except that the lessee's incremental borrowing rate must be used to calculate the present value of the MLPs, excluding the portion of payments representing executory costs unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate. If the incremental borrowing rate is used, the amount recorded as the asset and obligation is limited to the fair value of the leased asset. Asset amortisation is consistent with **IFRS**.

Operating leases

Under **IFRS**, **Indonesian GAAP** and **US GAAP**, the rental expense under an operating lease must generally be recognised on a straight-line basis over the lease term.

Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. Under **IFRS** and **US GAAP** frameworks, the lessee must recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive must be amortised on a straight-line basis unless another systematic basis is representative of the pattern of the lessee's benefit from the use of the leased asset.

Indonesian GAAP does not specifically address incentives. However, treatments like those under **IFRS** and **US GAAP** may apply.

Sale and leaseback transactions

In a sale and leaseback transaction, the seller-lessee sells an asset to the buyer-lessor and leases the asset back. There are certain differences in the rules on dealing with profits and losses arising on sale and leaseback transactions across the three frameworks. These are highlighted in the table below.

E. Leases – lessee accounting (continued)

Sale and leaseback transactions (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Finance lease			
Profit or loss on sale	Deferred and amortised over the lease term.	Deferred and amortised: <ul style="list-style-type: none"> In proportion to the amortisation of the leased asset if capital lease. In proportion to the amortisation of the lease expense if operating lease. 	Timing of profit or loss recognition depends on whether the seller relinquishes substantially all or a minor part of the use of the asset. If substantially all, then profit/loss is generally recognised at date of sale. If seller retains more than a minor part, but not substantially all of the use of the asset, any profit in excess of either the present value of MLPs (for operating leases) or the recorded amount of the leased asset (for finance leases) is recognised at date of sale. A loss on a sale-leaseback must be recognised immediately by the seller-lessee to the extent that net book value exceeds fair value. Special rules apply for sale-leasebacks involving property relating to continuing involvement and transfer of risks and rewards of ownership.
Operating lease			
Sale at fair value	Immediate recognition.	No specific guidance.	See above.
Sale at less than fair value	Immediate recognition unless the difference is compensated by lower future rentals, then defer the difference over the period over which the asset is expected to be used.	No specific guidance.	See above.
Sale at more than fair value	Defer the difference over the period for which the asset is expected to be used.	No specific guidance.	See above.

REFERENCES: IFRS: IAS 17, SIC-15. Indonesian GAAP: PSAK 30. US GAAP: FAS 13, FAS 28, FAS 66, FAS 98.

F. Financial liabilities

Definition

IFRS and **US GAAP** define a financial liability in a similar manner to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Financial liabilities include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). Derivatives are covered on p99.

Broadly similar to **IFRS** and **US GAAP**, **Indonesian GAAP** defines a financial liability as an instrument that contains a contractual arrangement on initial recognition to deliver cash or assets similar to cash under conditions that are potentially unfavourable. Financial liabilities include derivatives.

Classification

IFRS Where there is a contractual obligation (either explicit or indirectly through its terms and conditions) on the issuer of an instrument to deliver either cash or another financial asset to the holder, that instrument meets the definition of a financial liability, regardless of the manner in which the contractual obligation will be settled.

Preferred shares that are not redeemable, or that are redeemable solely at the option of the issuer and where distributions are at the discretion of the issuer, are classified as equity. However, preferred shares requiring the issuer to redeem for a fixed or determinable amount at a fixed or determinable future date, or where the holder has the option of redemption, are classified as liabilities.

Where the settlement of a financial instrument, such as a preferred share, is contingent on uncertain future events beyond the control of both the issuer and the holder, the issuer must classify the financial instrument as a liability. However, an instrument that is settled using an entity's own equity shares is classified as a liability if the number of shares varies in such a way that the fair value of the shares issued equals the obligation.

Puttable instruments (financial instruments that give the holder the right to put the instrument back to the issuer for cash or another asset) are liabilities.

Split accounting is applied to convertible debt – see below.

Indo GAAP Less comprehensive guidance than **IFRS**. Financial liabilities arise when there is a contractual obligation on the issuer of an instrument to deliver either cash or another financial asset. Preferred shares are classified as equity, no further guidance when the shares are redeemable.

US GAAP Where an instrument includes a conditional or unconditional obligation to transfer economic benefits (assets or issuance of equity shares), the instrument is generally classified as a liability. Examples include:

- A financial instrument issued in the form of shares that is mandatorily redeemable, i.e. that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or on an event that is certain to occur.
- A financial instrument that, at inception, embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets (for example, a forward purchase contract or written put option on the issuer's equity shares that is to be physically settled or net cash settled).

F. Financial liabilities (continued)

Classification (continued)

- A financial instrument that embodies an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares.

US GAAP does not make specific reference to classification of instruments where contingent settlement provisions exist.

Recent proposals – IFRS

IFRIC issued a draft Interpretation on members' shares in co-operative entities in June 2004. It proposes new guidance for determining whether members' shares in co-operative entities are liabilities or equity.

Convertible debt

IFRS 'Split accounting' is used, whereby the proceeds of issuing debt are allocated between the two components: the equity conversion rights (recognised in equity); and the liability, recognised at fair value calculated by discounting at a market rate for a non-convertible debt (recognised in liabilities).

Indo GAAP Similar to **US GAAP**, debt securities issued with non-detachable warrants (in the form of convertible debt, for example) are recorded as liabilities. Debt securities issued together with detachable warrants are recorded at their relative fair values at time of issuance.

US GAAP For conventional convertible debt, the instrument is treated as a unit and recorded as a liability (no recognition is given to the equity component); otherwise an analysis is performed to determine if the equity component should be separated and accounted for as a derivative. Unlike **IFRS**, detachable warrants that are issued with mandatorily redeemable preferred stock are recorded at the residual amount (i.e. the amount left over after the preferred stock has been valued at fair value). However, detachable warrants issued with debt are still recorded using a relative fair value approach.

Measurement

IFRS Initial measurement is at fair value, which is usually the consideration received, less transaction costs.

There are only two categories of financial liabilities: those at fair value through profit or loss (includes trading) and other. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities. Financial liabilities at fair value through profit or loss (including trading) are measured at fair value (the change is recognised in the income statement for the period). All other (non-trading) liabilities are carried at amortised cost.

Indo GAAP Generally similar to **IFRS**.

F. Financial liabilities (continued)

Measurement (continued)

US GAAP Generally similar to **IFRS**. However, there are certain specific measurement criteria for financial instruments and entities cannot designate at initial recognition any financial liability as at fair value through profit or loss.

Derecognition of financial liabilities

IFRS A financial liability must be derecognised when: the obligation specified in the contract is discharged, cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument such that the discounted present value of new cash flows is 10% different from the old cash flows.

The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it must be recognised in net profit or loss for the period.

Indo GAAP In general similar to **IFRS**, but the guidance is less comprehensive. No 10% cash flow difference rule.

US GAAP Similar to **IFRS**, a financial liability should be derecognised only if it has been extinguished. Extinguished means paying the creditor and being relieved of the obligation or being legally released of the liability either judicially or by the creditor, or as a result of a substantial modification in terms (10% or greater charge in discounted present value of cash flows).

REFERENCES: **IFRS:** IAS 32, IAS 39, SIC-16. **Indonesian GAAP:** PSAK 50, PSAK 21, PSAK 41. **US GAAP:** CON 6, ASR 268(SEC), APB 6, APB 14, FAS 140, FAS 150.

Equity

Equity instruments

Recognition and classification

- IFRS** An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. All other derivatives on own equity are treated as derivatives.
- Indo GAAP** Equity instruments represent claims by the owners of the company. Similar to **IFRS**, these instruments do not contain an obligation to transfer economic resources in unfavorable conditions. Preferred shares are classified as equity, no further guidance when the shares are redeemable.
- US GAAP** Similar to **IFRS**. Shareholders' equity is analysed between capital stock (showing separate categories for non-redeemable preferred stock and common stock) and other categories of shareholders' equity. Mandatorily redeemable financial instruments, obligations to repurchase own shares by transferring assets, and certain obligations to issue a variable number of shares are not classified as equity, but are considered to be liabilities.

Purchase of own shares

- IFRS** When an entity's own shares are repurchased, the shares are shown as a deduction from shareholders' equity. Any profit or loss on the subsequent sale of the shares is shown as a change in equity.
- Indo GAAP** When treasury stock is acquired with the intention of retiring the stock, excess of the cost of treasury stock over its par value is charged to additional paid-in-capital (APIC) related to the issuance of the shares and the remaining balance is charged to retained earnings.
- When treasury stock is acquired for purposes other than retirement, the cost of the acquired stock shown as a deduction from equity.
- US GAAP** When treasury stock is acquired with the intention of retiring the stock, an entity has the option to: charge the excess of the cost of treasury stock over its par value entirely to retained earnings; allocate the excess between retained earnings and additional paid-in-capital (APIC); or charge the excess entirely to APIC.
- When treasury stock is acquired for purposes other than retirement, the cost of the acquired stock may be shown separately as a deduction from equity or may be treated the same as retired stock.

Dividends on ordinary equity shares

- IFRS** Presented as a deduction in the statement of changes in shareholders' equity.
- Indo GAAP** Similar to **IFRS**.
- US GAAP** Similar to **IFRS**.

Equity instruments (continued)

REFERENCES: IFRS: IAS 32, IAS 39, SIC-16. Indonesian GAAP: PSAK 21. US GAAP: CON 6, APB 6, APB 14, FAS 150.

Derivatives and hedging

A. Derivatives

IFRS, Indonesian GAAP and **US GAAP** all specify rules for the recognition and measurement of derivatives.

Definition

IFRS defines a derivative as a financial instrument: whose value changes in response to a specified variable or underlying rate (for example, interest rate); that requires no or little net investment; and that is settled at a future date. **US GAAP** and **Indonesian GAAP** set out similar requirements, except that the terms of the derivative contract must require or permit net settlement. There are therefore some derivatives, such as option and forward agreements to buy unlisted equity investments, that fall within **IFRS** definition, not the **US GAAP** and **Indonesian GAAP** definition.

Initial measurement

Under **IFRS, Indonesian GAAP** and **US GAAP**, all derivatives are recognised on the balance sheet as either financial assets or liabilities. They are initially measured at fair value on the acquisition date.

Subsequent measurement

IFRS, Indonesian GAAP and **US GAAP** require subsequent measurement of all derivatives at their fair value, regardless of any hedging relationship that might exist. Changes in a derivative's value are recognised in the income statement as they arise, unless they satisfy the criteria for hedge accounting outlined below. Under **IFRS**, a derivative whose fair value cannot be measured reliably is carried at cost less impairment or amortisation until settlement.

B. Hedge accounting

Under **IFRS** and **US GAAP**, detailed guidance is set out in the respective standards dealing with hedge accounting. Whilst containing basic principles similar to those under **US GAAP**, **Indonesian GAAP** provides far less detailed guidance.

Criteria for hedge accounting

Under **IFRS, Indonesian GAAP** and **US GAAP**, hedge accounting is permitted provided that an entity meets stringent qualifying criteria in relation to documentation and hedge effectiveness. All three frameworks require documentation of the entity's risk management objectives and how the effectiveness of the hedge will be assessed. Under all three frameworks, hedge instruments must be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows, and the effectiveness of the hedge must be measured reliably on a continuing basis.

Under **IFRS** and **US GAAP**, a hedge qualifies for hedge accounting if the expectation is that changes in fair values or cash flows of the hedged item are highly effective in offsetting changes in the fair value or cash flows of the hedging instrument ('prospective' test) and 'actual' results are within a range of 80% to 125% ('retrospective' test). No quantitative guidance for retrospective test exists under **Indonesian GAAP**. However, such guidance is often used in practice. Unlike **IFRS, US GAAP** (and implicitly **Indonesian GAAP**)

B. Hedge accounting (continued)

Criteria for hedge accounting (continued)

also allows, assuming stringent conditions are met, a 'short-cut' method that assumes perfect effectiveness for certain hedging relationships involving interest-rate swaps.

Hedged items

In addition to the general criteria for hedge accounting, **IFRS**, **Indonesian GAAP** and **US GAAP** outline rules for the designation of specific financial assets and liabilities as hedged items. These are outlined in the table below.

IFRS	Indonesian GAAP	US GAAP
Held-to-maturity investments cannot be designated as a hedged item with respect to interest-rate risk or prepayment risk, because held-to-maturity investments require an intention to hold to maturity without regard to changes in fair value or cash flows due to changes in interest rates.	Similar to IFRS .	Similar to IFRS .
If the hedged item is a financial asset or liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value provided that effectiveness can be measured.	The designated risk should be the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the creditworthiness of the 'obligor'.	The designated risk should be the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the creditworthiness of the 'obligor'.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk, or in its entirety because of the difficulty of isolating other risks.	Similar to IFRS .	Similar to IFRS .
If similar assets or similar liabilities are aggregated and hedged as a group, the change in fair value attributable to the hedged risk for individual items must be proportionate to the change in fair value for the group.	Similar to IFRS .	Similar to IFRS .
Not specified.	Similar to US GAAP .	An asset or liability that is re-measured to fair value with changes recognised in earnings – for example, a debt security classified as trading – is not permitted as a hedged item.
Not specified.	Similar to US GAAP .	The hedged item cannot be related to: a business combination; the acquisition or disposition of subsidiaries; a minority interest in one or more consolidated subsidiaries; or investments accounted for using the equity method.

B. Hedge accounting (continued)

Hedging instruments

In most cases, only a derivative instrument can qualify as a hedging instrument. However, **IFRS** permits a non-derivative (such as a foreign currency borrowing) to be used as a hedging instrument for foreign currency risk. **US GAAP** and **Indonesian GAAP** provide that a non-derivative can hedge currency risk only for a net investment in a foreign entity or a firm commitment.

Under **IFRS**, a written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid. **US GAAP** and **Indonesian GAAP** provide a broadly similar restriction, and in most cases written options will not qualify for hedge accounting.

Hedge relationships

Exposure to risk can arise from: changes in the fair value of an existing asset or liability; changes in the future cash flows arising from an existing asset or liability; or changes in future cash flows from a transaction that is not yet recognised.

IFRS Recognises the following types of hedge relationships: a fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability; a cash flow hedge where the risk being hedged is the potential volatility in future cash flows; and a hedge of a net investment in a foreign entity, where a hedge instrument is used to hedge the currency risk of a net investment in a foreign entity. A forecasted transaction must be highly probable to qualify as a hedged item.

Indo GAAP Similar to **US GAAP**. Please see below.

US GAAP Similar to **IFRS**, except forecasted transactions only need to be probable.

Fair value hedges

IFRS Hedging instruments are measured at fair value. The hedged item is adjusted for changes in its fair value, but only due to the risks being hedged. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in the income statement.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Cash flow hedges

IFRS Hedging instruments are measured at fair value, with gains and losses on the hedging instrument, where they are effective, initially deferred in equity and subsequently released to the income statement concurrent with the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecasted asset and liability acquisitions may be included in the cost of the non-financial asset or liability - a 'basis adjustment' - but this is not permitted for financial assets or liabilities.

Indo GAAP Similar to **US GAAP**. Please see below.

B. Hedge accounting (continued)**Cash flow hedges** (continued)

US GAAP The basis adjustment approach is not permitted. All gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item.

Hedges of net investments in foreign operations

IFRS Similar treatment to cash flow hedges; the hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity's investment in the foreign operation. These gains/losses are transferred to the income statement on disposal of the foreign operation.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Fair value hedge accounting for a portfolio hedge of interest rate risk

IFRS Permits an entity to designate an amount of assets or liabilities in a given 'time bucket', scheduled based on expected repricing dates of a portfolio. The changes in the fair value of this hedged item are reflected in a single separate line item within assets or liabilities. The carrying amounts of the individual assets or liabilities in the portfolio are not adjusted.

Indo GAAP Prohibited.

US GAAP Prohibited.

Disclosure

The extensive disclosure requirements in **IFRS**, **Indonesian GAAP** and **US GAAP** apply to all entities except that under **US GAAP**, fair value disclosures are not required for certain small non-public entities. The disclosures under the three frameworks are similar and include general information about the entity's use of financial instruments, fair value information, details of hedging activities and liquidity information. However, there are numerous differences in the detailed requirements (such as those for disclosures of interest-rate risk, credit risk and market risk), as well as industry-specific disclosures, which are outside the scope of this publication. Additionally, disclosures in **IFRS** and **Indonesian GAAP** are required to be presented in the notes to the financial statements, while many similar disclosures in **US GAAP** are presented in the MD&A for SEC registrants.

B. Hedge accounting (continued)**Recent proposals – IFRS**

The IASB has issued an exposure draft of proposed amendments to IAS 39, Financial Instruments: Recognition and Measurement, on cash flow hedge accounting of forecast intra-group transactions. The exposure draft proposes that, in the consolidated financial statements, a group can designate as the hedged item a highly probable forecast external transaction denominated in the functional currency of the entity (for example, a subsidiary) provided that the transaction gives rise to an exposure that will have an effect on consolidated profit or loss. There is currently a difference on hedges of foreign currency risk of forecast intra-group transactions, which are permitted under **US GAAP** but prohibited under **IFRS**.

REFERENCES: **IFRS:** IAS 39. **Indonesian GAAP:** PSAK 10, PSAK 50, PSAK 55. **US GAAP:** FAS 133, FAS 137, FAS 138, FAS 149, EITF D-102.

Other accounting and reporting topics

A. Foreign currency translation

Functional currency – definition and determination

IFRS The currency of the primary economic environment in which an entity operates. If the indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).

Additional evidence (secondary in priority) may be provided from the currency in which funds from financing activities are generated or receipts from operating activities are usually retained.

In determining the functional currency of a foreign operation (i.e. whether its functional currency is the same as that of the reporting entity), the degree of autonomy and the foreign operation's ability to operate as a separate unit should be established.

Indo GAAP Emphasis more on form rather than substance. A currency is designated as a functional currency if it meets all the three following criteria:

- Cash flow indicator: cash flows relating to the company's main activities are dominated by that currency.
- Sales price indicator: prices of the Company's products within the short term are affected by movements of that currency or the Company's products are predominantly geared toward the export market.
- Cost indicator: the company's costs are predominantly affected by the movements of that currency.

US GAAP Similar to **IFRS**; however, there is less guidance in determining the functional currency of an entity and more guidance as to whether an entity should have the same functional currency as its parent. The functional currency is generally the currency in which the majority of the revenues and expenses are settled.

Translations – the individual entity

IFRS, Indonesian GAAP and **US GAAP** have similar requirements regarding the translation of transactions by an individual entity.

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction.
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) rate.
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate.
- Income statement amounts are translated using historical rates of exchange at the date of transaction or a weighted average rate as a practical alternative, provided the exchange rate does not fluctuate significantly.

A. Foreign currency translation (continued)**Translations the individual entity** (continued)

- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IFRS** and **Indonesian GAAP** only).
- Exchange gains and losses arising on an entity's own foreign currency transactions are reported as part of the profit or loss for the year from ordinary activities (except that under **Indonesian GAAP** certain exchange gains and losses arising from severe devaluation may still be capitalised). This includes long-term loans, which in substance form part of an entity's net investment in a foreign operation. Refer to the section 'Derivatives and hedging' (p99) for the hedge of a net investment.

Translation – consolidated financial statements

IFRS, **Indonesian GAAP** and **US GAAP** require that where the operations of a foreign operation are largely independent of the investing entity's reporting currency, amounts in the foreign operation's balance sheet are translated using the closing (year-end) rate, with the exception of equity balances, for which the historical rate is used. Amounts in the income statement are usually translated using the average rate for the accounting period. The translation differences arising are reported in equity (other comprehensive income).

Where a foreign operation is integral to the reporting entity, its accounts are translated as if all the transactions had been carried out by the reporting entity itself.

Tracking of translation differences in equity

IFRS These must be separately tracked and the cumulative amounts disclosed. On disposal of a foreign operation, the appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement and included in the gain or loss on sale. The cumulative translation difference relating to a foreign operation and deferred in equity may be released through the income statement in its entirety upon a complete disposal of that foreign operation or for a partial disposal on a pro rata basis relative to the portion disposed. The proportionate share of the related cumulative translation difference is included in the gain or loss. The payment of a dividend out of pre-acquisition profits constitutes a return of the investment and is regarded as a partial disposal.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Translation of goodwill and fair value adjustments on acquisition of foreign entity

IFRS Translate at closing rates.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

A. Foreign currency translation (continued)**Presentation currency**

IFRS When financial statements are presented in a currency other than the functional currency, assets and liabilities are translated at the exchange rate at the balance sheet date. Income statement items are translated at the exchange rate at the date of the transaction or are permitted to use average rates if the exchange rates do not fluctuate significantly.

Indo GAAP Presentation currency is Indonesian Rupiah, another currency may be used as long as it meets the criteria of functional currency.

US GAAP Similar to **IFRS**.

B. Foreign currency translation – hyperinflationary economy**Definition**

IFRS Hyperinflation is indicated by characteristics of the economic environment of a country. These characteristics include: the general population's attitude towards the local currency: prices linked to a price index; and the cumulative inflation rate over three years is approaching or exceeds 100%.

Indo GAAP No specific guidance.

US GAAP Similar to **IFRS**, except the only indicator is whether the cumulative three-year inflation rate is approximately 100% or more.

Functional currency

IFRS Entities that have the currency of a hyperinflationary economy as the functional currency should use that currency for measuring their transaction. The financial statements for current and prior periods should then be re-measured at the measurement unit current at the balance sheet date in order to present current purchasing power.

Indo GAAP No specific guidance.

US GAAP Does not generally permit inflation-adjusted financial statements; instead it requires the use of a more stable currency as the functional currency (usually the presentation currency). However, SEC rules provide an accommodation allowing foreign issuers that use **IFRS** to omit quantification of any differences that would have resulted from the application of FAS 52.

B. Foreign currency translation - hyperinflationary economy (continued)

Presentation currency

- IFRS** The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy should be translated into a different presentation currency using the following procedures:
- all items, including comparatives are translated at the closing rate at the date of the most recent balance sheet; except,
 - when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts are those that were presented as current year amounts in the relevant prior-year financial statements.

Indo GAAP No specific guidance.

US GAAP Not applicable, because the currency of a hyperinflationary economy is not used for measuring its transactions in the currency of the hyperinflationary economy.

Recent proposals – IFRS

IFRIC issued draft interpretation D5, Applying IAS 29 in Hyperinflationary Economies for the First Time, in March 2004. It contains proposed guidance on how to apply the requirements of IAS 29, Financial Reporting in Hyperinflationary Economies, in the first year in which an entity identifies the existence of hyperinflation in the economy of its functional currency and restates its financial statements in accordance with IAS 29.

REFERENCES: **IFRS:** Framework, IAS 21, IAS 29. **Indonesian GAAP:** PSAK 10, PSAK 11, PSAK 52. **US GAAP:** FAS 52, FIN 37.

C. Earnings per share

Earnings per share (EPS) must be disclosed by entities whose ordinary shares are publicly traded, and by entities in the process of issuing such shares under all three frameworks. **IFRS, Indonesian GAAP** and **US GAAP** are substantially the same in their methods of calculating EPS amounts.

Basic EPS

IFRS Basic EPS is calculated as profit available to common shareholders, divided by the weighted average number of shares in issue during the period. Shares issued as a result of a bonus issue are treated as if in issue for the whole year. Bonus issues occurring after the year-end must be incorporated into the calculations. For rights issues, a theoretical ex-rights formula is used to calculate the bonus element. Comparative EPS is adjusted for bonus issues and rights issues.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

C. Earnings per share (continued)

Diluted EPS - basis

IFRS There is no 'de minimis' dilution threshold below which diluted EPS need not be disclosed. For diluted EPS, earnings are adjusted for the after-tax amount of dividends, and interest is recognised in the period in respect of the dilutive potential ordinary shares and for any other changes in the income statement or expense that would result from the conversion of the dilutive potential ordinary shares. The conversion is deemed to have occurred at the beginning of the period or, if later, the date of the issue of potential dilutive ordinary shares.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Diluted EPS – share option

IFRS The 'treasury share' method is used to determine the effect of share options and warrants. The assumed proceeds from the issue of the dilutive potential ordinary shares are considered to have been used to repurchase shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (i.e. a bonus issue) and is factored into the denominator used to calculate the diluted EPS. The earnings figure is not adjusted for the effect of share options/warrants.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**. However, **US GAAP** guidance for applying the treasury stock (share) method in year to date computations states that the number of incremental shares to be included in the denominator is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. A component of the IASB/FASB Convergence project includes proposals that would require the dilutive effect of potential ordinary shares be reflected by applying the treasury stock method for the year-to-date period independently from any interim computation.

REFERENCES: **IFRS:** IAS 33. **Indonesian GAAP:** PSAK 56. **US GAAP:** FAS 128.

D. Related-party transactions

The objective of the disclosures required by **IFRS, Indonesian GAAP** and **US GAAP** in respect of related-party relationships and transactions is to ensure that users of financial statements are made aware of the extent to which those statements might be influenced by the existence of related parties.

Related-party relationships are generally determined by reference to the control or indirect control of one party by another, or by the existence of joint control (except that **Indonesian GAAP** does not specifically mention joint control) or significant influence by one party over another. The accounting frameworks are broadly similar as to which parties would be included within the definition of related parties, including subsidiaries, joint ventures, associates, directors and shareholders.

D. Related-party transactions (continued)

If the relationship is one based on control, certain disclosures are always required (regardless of whether transactions between the parties have taken place). These include the existence of the related-party relationship, the name of the related party and the name of the ultimate controlling party (except that **Indonesian GAAP** does not specifically require disclosure of the name of the ultimate controlling party).

There are some exemptions from disclosure available for certain subsidiaries and transactions.

Disclosures and exemptions

IFRS There is no specific requirement to disclose the name of the related party (other than the ultimate parent entity). There is a requirement to disclose the amounts involved in a transaction, as well as the balances for each major category of related parties. However, these disclosures would appear to be needed in order to present meaningfully the 'elements' of the transaction, which is a disclosure requirement.

IFRS also requires disclosure of the compensation of key management personnel in total and by category of compensation.

Exemptions from disclosures about related-party transactions in the financial statements of subsidiaries are limited. The subsidiary must be wholly owned and the parent must be incorporated in the same country and provide consolidated financial statements.

State-controlled entities are required to disclose related-party transactions under **IFRS**.

Indo GAAP Similar to **IFRS**, there is no specific requirement to disclose the name of the related party (including the name of the ultimate parent entity). Disclosures are more limited than those required by **IFRS** and typically include: nature of transactions with related parties, an indication of the volume of the transactions (both as an amount and as an appropriate proportion), amounts or appropriate proportions of outstanding items and pricing policies.

While a company needs to disclose the total compensation of key management personnel under **Indonesian GAAP** there is no requirement to disclose by category of compensation.

Under **Indonesian GAAP**, state-controlled entities are not required to disclose related-party transactions amongst themselves.

US GAAP The nature and extent of any transactions with all related parties and the nature of the relationship must be disclosed, together with the amounts involved. Unlike **IFRS**, all material related-party transactions (other than compensation arrangements, expense allowances and similar items) must be disclosed in the separate financial statements of wholly-owned subsidiaries, unless these are presented in the same financial report that includes the parent's consolidated financial statements (including those subsidiaries).

REFERENCES: **IFRS:** IAS 24. **Indonesian GAAP:** PSAK 7. **US GAAP:** FAS 57.

E. Segment reporting

All three frameworks have specific requirements about the identification, measurement and disclosure of segment information. The similarities and differences are reflected in the table below.

ISSUE	IFRS	Indonesian GAAP	US GAAP
General requirements			
Scope	Listed entities and entities in the process of listing. Non-listed entities may choose full compliance.	Similar to IFRS .	Listed entities. Non-listed entities are encouraged but not required to comply.
Format	Business and geographical reporting, one as primary format other as secondary. The choice will depend on the impact on business risks and returns. The secondary format requires less disclosure.	Similar to IFRS .	Based on operating segments and the way the chief operating decision-maker evaluates financial information for the purposes of allocating resources and assessing performance.
Identification of segment			
General approach	Based on profile of risks and returns and internal reporting structure.	Similar to IFRS .	Based on the internally reported operating segments.
Aggregation of similar business/operating segments	Five factors given to determine whether products and services are similar.	Similar to IFRS .	The same criteria apply for the aggregation of similar operating segments.
Aggregation of similar geographical segments	As for business/operating segments: six factors as given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Similar to IFRS .	Not specified. Certain disclosures (revenues and assets) are required, on a consolidated GAAP basis, of domestic operations, foreign countries in total and each material country.
Threshold for reportable segments	Revenue, results or assets are 10% or more of all segments. If revenue of reported segments are below 75% of the total, report additional segments until the 75% threshold is reached.	Similar to IFRS .	Similar to IFRS .
Segments not reported	Segments not identified as above are included as unallocated items.	Similar to IFRS .	Included in 'all other' category, with sources of revenue disclosed.
Maximum number of reported segments	No limits.	Similar to IFRS .	Practical limit suggested at no greater than 10 segments.

E. Segment reporting (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Measurement			
Accounting policies for segments	Those adopted for consolidated financial statements. Entities may disclose additional segment data based on internal accounting policies.	Similar to IFRS .	Those adopted for internal reporting to the chief operating decision-maker for the purposes of allocating resources and assessing performance.
Symmetry of allocation of assets/liabilities, revenues/expenses	Symmetry required.	Similar to IFRS .	Not required, but asymmetrical allocations must be disclosed.
Main disclosures			
Factors used to identify reportable segments	No specific disclosure required.	Similar to IFRS .	Required, including basis of organisation (for example, based on products and services, geographic areas, regulatory environments) and types of product and service from which each segment derives its revenues.
Composition of segments	Disclose types of products and services included in each reported business segment and composition of each geographical segment.	Similar to IFRS .	Same as IFRS .
Profit	Required.	Required.	Required.
Assets and liabilities	Assets required. Liabilities for primary segment format only.	Similar to IFRS .	Assets required. Liabilities not required.
External and inter-segment revenue	External revenue required. Inter-segment revenue in primary segment format only.	Similar to IFRS .	Required on a consolidated GAAP basis, and on a segment GAAP basis but only if included in the measurement of segment profit/loss for internal reporting.
Depreciation and amortisation expense and other significant non-cash expense	Required only for primary segment format.	Similar to IFRS .	Required for reportable segments on segment GAAP basis, but only if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Exceptional item	Encouraged but not required for primary segment format only.	Required for primary segment only.	
Interest revenue and interest expense	Not required.	Not required.	
Income tax	Not required.	Not required.	

E. Segment reporting (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Main disclosures (continued)			
Capital expenditure on an accrual basis	Required.	Required.	Required for reportable segments on segment GAAP basis, but only if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Profit/loss from investments in equity method investees, and amount of investment in equity method investees	Required if operations of associate are substantially all within a single segment.	Similar to IFRS .	
Major customers	Not required.	Not required.	Disclose total revenue and the relevant segment that reported the revenues for each external customer greater than or equal to 10% of consolidated revenue.
Reconciliation of total segment revenue, total segment measures of profit or loss, total segment assets, total segment liabilities and any other significant segment totals to the corresponding totals of the entity	Required.	Required.	Required, except for segment liabilities.

REFERENCES: **IFRS:** IAS 14. **Indonesian GAAP:** PSAK 5 (Revised 2000). **US GAAP:** FAS 131.

F. Discontinued operations

IFRS, Indonesian GAAP and **US GAAP** contain requirements for the measurement and disclosures of 'discontinued' operations.

ISSUE	IFRS	Indonesian GAAP	US GAAP
Definition	Operations and cash flows that can be clearly distinguished operationally and for financial reporting and represent a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.	A component of a company that is, pursuant to a single plan, will be disposed of or abandoned. That component represents a separate major line of business or geographical area of operations and can be distinguished operationally and for financial reporting purposes.	A component that can be clearly distinguished operationally and for financial reporting. May be a reportable segment, operating segment, reporting unit, subsidiary or an asset grouping.

F. Discontinued operations (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
How discontinued	Operations and cash flows that have been disposed of or classified as held for sale.	Either substantially in its entirety or piecemeal or through abandonment.	Similar to IFRS . Operations and cash flows have been or will be eliminated, and entity will not have significant continuing involvement.
Envisaged timescale	Completed within a year, with limited exceptions.	Over several months or longer but pursuant to single plan.	Similar to IFRS .
Starting date for disclosure	From the date on which a component has been disposed of or, if earlier, is classified as held for sale.	Whichever occurs earlier: (a) the company has entered into a binding agreement to sell substantially all of the assets attributable to the discontinuing operation; or (b) the authority within the company, has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.	Similar to IFRS .
Measurement	Lower of carrying value or fair value less costs to sell.	Follow other standards e.g. on provision and impairment.	Similar to IFRS .
Presentation	Present a single amount on the face of the income statement comprising the post-tax profit or loss of discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only.	Continue to consolidate as normal until discontinuance completed, with additional disclosures on face of income statements or in notes.	Similar to IFRS . From measurement date, present result from operations of discontinued component (and gain or loss on disposal) as separate lines in the income statement, net of tax, after income from continuing operations. Balance sheet consolidation as normal, if discontinuance not completed by period end, with segregation of assets and liabilities (current and non-current) related to the disposal groups classified as held for sale.
Ending date of disclosure	Until completion of the discontinuance.	Similar to IFRS .	Similar to IFRS .

F. Discontinued operations (continued)

ISSUE	IFRS	Indonesian GAAP	US GAAP
Disclosures – where	Face of the income statement or in notes. Assets and liabilities of related disposal groups classified as held for sale are disclosed separately on the balance sheet.	Similar to IFRS . No specific guidance for assets and liabilities of disposal groups classified as held for sale.	Similar to IFRS . From date on which component is disposed of or classified as held for sale, results of operations are reported as discontinued operations in a separate component of income before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of related disposal groups classified as held for sale are segregated on the balance sheet.
Disclosures – what	<ul style="list-style-type: none"> Description of disposal group. Expected manner and timing of disposal. Facts and circumstances leading to sale or disposal. Gain or loss recognised on classification as held for sale. Revenue, expenses, pre-tax result, tax and cash flows for current and prior periods. Segment of disposal group. 	<ul style="list-style-type: none"> Description of the discontinued component and which segment it is part of. Date and nature of initial disclosure event. Expected timescale for completion of discontinuance. Carrying value of total assets/liabilities to be disposed of. Revenue, expenses, pre-tax result, tax and cash flows for current period. 	Similar to IFRS .
Comparatives	Represent income statement for effects of discontinued operations.	Restate for effects of discontinuing operations.	Similar to IFRS .

REFERENCES: **IFRS:** IFRS 5. **Indonesian GAAP:** PSAK 58 (Revised 2003). **US GAAP:** FAS 144.

G. Post-balance-sheet events

All three frameworks have similar standards on post-balance-sheet events.

Adjusting events after the balance sheet date

IFRS Adjusting events that occur after the balance sheet date are defined as events that provide additional evidence of conditions that existed at the balance sheet date and that materially affect the amounts included. The amounts recognised in the financial statements must be adjusted to reflect adjusting events after the balance sheet date.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

Non-adjusting events after the balance sheet date

IFRS Non-adjusting events that occurred after the balance sheet date are defined as events that are indicative of conditions that arose after the balance sheet date. The nature and estimated financial effects of such events are disclosed to prevent the financial statements from being misleading.

Indo GAAP Similar to **IFRS**.

US GAAP Similar to **IFRS**.

The announcement of a dividend relating to the financial year just ended

IFRS This is a non-adjusting event.

Indo GAAP Similar to **IFRS**.

US GAAP The declaration of a cash dividend is a non-adjusting event; but a stock dividend is an adjusting event.

REFERENCES: **IFRS:** IAS 10. **Indonesian GAAP:** PSAK 8 (Revised 2003). **US GAAP:** AU Section 560.

H. Interim financial reporting

Stock exchange requirements

IFRS The IASB does not require public entities to produce interim statements but does encourage interim reporting - see additional guidance below.

Indo GAAP Similar to **IFRS**, the Indonesian Institute of Accountant (IAI) does not mandate interim statements. However, the Indonesian Capital Market Supervisory Board (BAPEPAM) requires listed companies to submit half-yearly interim financial statements. Other regulators might require certain industries to prepare interim financial statements. For example, Bank Indonesia requires interim financial statements for the banking industry.

H. Interim financial reporting (continued)

Stock exchange requirements (continued)

US GAAP Similar to **IFRS**, the FASB does not mandate interim statements. However, if required by the SEC, domestic US SEC registrants must follow APB 28 and comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting, including publication within 40 days (phasing to 35) of the quarter-end. SEC registrants must also include an abbreviated management discussion and analysis of financial condition and results of operations.

Additional guidance

Additional guidance under all three frameworks is similar and includes the following:

- Consistent and similar basis of preparation of interim statements, with previously reported annual data and from one period to the next;
- Use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies that it is known will be made in the year-end financial statements (for example, application of a new standard). **Indonesian GAAP** strongly recommended that changes in accounting principles be made in the first interim period;
- Under **IFRS** and **US GAAP**, preparation of the interim statements using a 'discrete approach' to revenue and expenditure recognition; that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Incomplete transactions must therefore be treated in the same way as at the year end. On the other hand, **Indonesian GAAP** adopts "the integral approach", in which the interim period is viewed as an integral part of the annual period. Consequently, though most transactions are treated the same way as the year end, there are several modifications on certain transactions, for instances those related to estimation and forecast of full year performance;
- Whilst **US GAAP** using "discrete approach, it allows allocation between interim periods of certain costs benefiting more than one of those periods, and deferral of certain cost variances expected to be absorbed by year end;
- The tax charge in all three frameworks is based on an estimate of the annual effective tax rate applied to the interim results;
- Summarised income statement (including segment revenue/profit), balance sheet, cash flow statement, selected notes and statement of recognised gains and losses, except for listed company in **Indonesia**, where a full set of financial statements must be submitted; and
- A narrative commentary.

Under **IFRS** and **US GAAP**, comparatives for the balance sheet are taken from the last annual financial statements. They also require that quarterly interim reports must contain comparatives (other than for the balance sheet) for the cumulative period to date and the corresponding period of the preceding year. Under **Indonesian GAAP** comparatives for the interim statements are taken from the corresponding period of the preceding year. **Indonesian GAAP** also requires interim income statement to contain information for the cumulative period to date.

REFERENCES: **IFRS:** IAS 34. **Indonesian GAAP:** PSAK 3, BAPEPAM Rule No. X.K.2, PAPI Ch.2. **US GAAP:** APB 28, FAS 130, FAS 131.

I. Insurance

Insurance and reinsurance contracts – definition

IFRS introduces a definition of an insurance contract based on the concept of insured event and significant insurance risk transfer. This definition applies to both insurance contracts issued and reinsurance contracts held.

Indonesian GAAP does not provide a single definition of insurance contract. Guidance is provided for the insurance industry (in particular loss insurance and life insurance) rather than for an insurance contract.

US GAAP does not provide a single definition of insurance contract. The classification of contracts is performed by reference to the combined requirements of FAS 60, FAS 97 and FAS 120. Reinsurance contracts are subject to the definition contained in FAS 113. FAS 97 also covers investment contracts that would be accounted for under IAS 39 in **IFRS** financial statements.

The resulting population of insurance contracts under **US GAAP** is a subset of the **IFRS** classification. In addition, 'universal life-type contracts' within FAS 97 contain significant insurance risk under **IFRS** but are required to be accounted for under **US GAAP** using the deposit method of accounting rather than the deferral and matching accounting model used for all other insurance contracts (see below).

Reinsurance contracts that compensate the ceding party for losses but contain a timing delay in reimbursement (i.e. the loss will certainly occur but its timing is uncertain) are subject to deposit accounting under FAS 113 but are classified as insurance contracts under **IFRS**.

One of the results of applying the **IFRS** insurance contract definition is that companies can no longer analogise to FAS 97 measurement principles with respect to their accounting for deferred acquisition costs (DAC). **IFRS** preparers with investment contracts under IAS 39 must look to IAS 18 for accounting guidance related to the recognition and measurement of DAC. **IFRS** also recognises that the fair value of an investment contract cannot be less than the amount payable on demand (the 'deposit floor'); under **US GAAP**, the account value may fall below this level.

Discretionary participation feature (DPF)

This is a new term under **IFRS** relating to the right of holders of certain insurance contracts and/or financial instruments to receive a supplemental return (in addition to guaranteed benefits) arising from certain components of the residual interest of the entity that has issued contracts with DPF as compound instruments. **IFRS** defines insurance contracts and financial instruments with DPF as compound instruments. **IFRS** does not require but permits the separation of the DPF equity component. The use of hybrid categories classified between equity and liabilities is prohibited.

Indonesian GAAP does not provide a specific guidance for financial instruments with DPF.

IFRS requires entities to perform an adequacy test for those financial instruments with DPF. This liability adequacy test is different for those financial instruments with DPF that have an equity component. In this case, the liability adequacy test is based on IAS 39. In all other cases, IFRS 4 applies.

This type of participation is described under **US GAAP** as policyholder dividends, and guidance is provided on accounting for dividends paid out of insurance contracts.

Entities must recognise a liability for the expected dividend payout based on an estimate of the amount to be paid. There are no requirements to disclose the portion of equity that arises from contracts that pay dividends. However, any dividend payments or declarations in excess of the liability are charged to profit or loss when paid or declared.

I. Insurance (continued)

Discretionary participation feature (DPF) (continued)

The possibility of such dividends being paid on financial instruments is not contemplated in **US GAAP** and in **Indonesian GAAP**. Current **US GAAP** reporters have adopted the insurance accounting guidelines for measuring the obligations under such contracts.

Insurance and reinsurance contracts – measurement

The existing accounting policies for insurance contracts issued and reinsurance contracts held (including related intangible assets like deferred acquisition costs) are exempt from **IFRS** hierarchy and need not be changed on adoption of IFRS 4, except for the following five requirements:

1. Provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions) are prohibited;
2. Insurance liabilities must be tested for adequacy;
3. Reinsurance assets must be tested for impairment;
4. Insurance liabilities can be de-recognised only when they are discharged or cancelled or expire;
5. Insurance liabilities and income should not be offset against related reinsurance assets and expenses.

US GAAP has specific measurement guidance for insurance contracts and reinsurance contracts. As explained above, **IFRS** allows entities to continue with their accounting policies developed under another GAAP. There are several differences between **US GAAP** and **IFRS** and the entity's insurance and reinsurance accounting policies that have been developed from another GAAP basis. These are not covered by this publication.

Under **IFRS** the asset liability adequacy test requirement is met by the FAS 60 premium deficiency test. However, any deficiency resulting from the assumed realisation of unrealised gains or losses is reflected through the income statement under **IFRS** because **IFRS** does not have the option to reflect this type of liability adequacy loss through equity. This type of loss is known in **US GAAP** as a 'shadow' premium deficiency adjustment. In addition, **IFRS** requires guaranteed options to be considered in the liability adequacy test. In **US GAAP**, these are provided for under SOP 03-01 and are not explicitly considered in the premium deficiency test.

Insurance and reinsurance contracts – deposit accounting and unbundling of deposit components

IFRS requires the unbundling and separate measurement of the deposit component bundled in an insurance contract if and only if the deposit can be reliably measured and the entity's accounting policies do not recognise all rights and obligations arising from it. This requirement is limited in practice to situations in which the insurer or reinsurer has established experience accounts that refund the policyholder or cedant but has not appropriately reflected this obligation in its balance sheet.

IFRS also allows the unbundling of deposit components on a voluntary basis if the deposit component can be reliably measured. This right would allow preparers to use the FAS 97 deposit accounting approach for universal life-type contracts (these contracts most likely qualify as insurance contracts under **IFRS** because they usually transfer significant insurance risk). For these contracts, **US GAAP** requires the recognition of the liability representing the policyholder's account balance with the insurer. The account balance concept is equivalent to the deposit component concept in **IFRS**.

I. Insurance (continued)

Insurance and reinsurance contracts – deposit accounting and unbundling of deposit components (continued)

Indonesian GAAP does not specifically require unbundling of the deposit component.

Insurance contracts sold by an insurer to its own defined benefit plan

Insurance contracts sold by an insurer to its own defined benefit plan will generally be eliminated on consolidation, as outlined in IFRS 4 implementation guidance. The financial statements will then include:

- the full amount of the pension obligation under IAS 19, Employee Benefits, with no deduction for the plan's rights under the contract;
- no liability to policyholders under the contract; and
- the assets backing the contract.

Under **US GAAP**, these contracts are recorded by including the value of the insurance contract as plan assets in the calculation of the company's net defined benefit liability, and reflecting the insurance contract liability in accordance with the applicable insurance accounting guidance.

Insurance and reinsurance contracts – embedded derivatives

Under **IFRS**, embedded derivatives that also meet the definition of insurance contracts are not required to be separated and fair valued. Options to surrender the insurance contract are exempted from separation and fair value measurement if the option price is a fixed amount or a fixed amount plus interest. This exemption also applies to derivatives embedded in financial instruments with DPF. Under **US GAAP**, these embedded derivatives are not subject to exemptions from the general principle of separation and fair value measurement when they are not closely related to the host contract.

IFRS classifies persistency bonuses as embedded derivatives; **US GAAP** treats them as an effective yield adjustment and does not require them to be separated and fair valued.

There is no specific guidance on this matter under **Indonesian GAAP**.

Disclosures

IFRS Requires extensive disclosures to allow the users of financial statements to understand the measurement bases adopted, the materiality of the reported amounts arising from insurance contracts and the factors that affect the uncertainty of amount and timing of the cash flows arising from insurance and reinsurance contracts.

Indo GAAP Requires less disclosure than **IFRS**. Among others, a loss insurance company or a life insurance company must describe their accounting policies for recognition of income and expenses and reinsurance transactions. **Indonesian GAAP** does not specifically require disclosures of the materiality of the reported amounts arising from insurance contracts and the factors that affect the uncertainty of amount and timing of the cash flows arising from insurance and reinsurance contracts.

I. Insurance (continued)

Disclosures (continued)

US GAAP Disclosures are less demanding than **IFRS**. However, similar disclosures are included in other sections of the annual report (for example in the MD&A section). An example of such disclosure is the claims development table.

Separate accounts

IFRS Does not permit a single line presentation.

Indo GAAP A single line presentation is allowed.

US GAAP FAS 60 and SOP 03-01 allow single line presentation in the balance sheet and offsetting of investment results, with changes in policyholder liabilities in the income statement.

REFERENCES: **IFRS:** IFRS 4. **Indonesian GAAP:** PSAK 28 (Revised 1996), PSAK 36. **US GAAP:** FAS 60, 97, 120 and 113, SOP 03-1, SOP 95-1 for insurance contracts, FAS 91 for financial instruments, FAS 133.

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