

ABAS NewsFlash

Assurance/Business Advisory Services

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NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Indonesian Accounting Standards Board of the Indonesian Institute of Accountants (or "DSAK – IAI") has recently approved the revision of 2 accounting standards ("PSAKs") and issuance of 2 interpretations ("ISAKs"). The standard-setting body has also launched an Exposure Draft to revise an existing accounting standard.

The revised standards are:

- PSAK No. 8: Events After the Balance Sheet Date (revised 2003)
- PSAK No. 51: Accounting for Quasi-Reorganizations (revised 2003)

Whilst the new interpretations are:

- ISAK No. 5: Interpretation of para. 14 of PSAK 50 "On Changes in Fair Values of Available-for-Sale Securities"
- ISAK No. 6: Interpretation on para. 12 and 16 of PSAK 55 (revised 1999) "On Embedded Derivatives in Contracts Denominated in a Foreign Currency"

The Exposure Draft recently issued by DSAK-IAI is ED-PSAK No. 38: Accounting for Restructuring Transactions between Entities Under Common Control (revised 2004)

PSAK 8 (revised 2003)

Events after the balance sheet date are defined by the standard as those events, whether favourable or unfavourable, that occur between the balance sheet date and the date the financial statements are completed. The financial statements are completed when they have been finalized and there are no more changes or adjustments thereon.

Similar to the previous version of PSAK 8, events after the balance sheet date can be classified into those that adjust the financial statement and those that do not. However there are several changes introduced by the revised PSAK 8, including:

1. additional disclosures about the date the financial statements are completed and who is responsible for completion of those financial statements;
2. a requirement that dividends declared after the balance sheet date but before the financial statements are completed should not be recognized as a liability as at the balance sheet date, but should be

disclosed in the notes to the financial statements

3. confirmation that an enterprise should update disclosures that relate to conditions that existed at the balance sheet date in the light of any new information that it receives after the balance sheet date about those conditions;
4. elimination of the requirement to adjust the financial statements where a subsequent event indicates a going concern issue for part(s) of the enterprise. PSAK 1, Presentation of Financial Statements requires that going concern assumption be considered for the enterprise as a whole.

PSAK 8 (revised 2003) is applicable for financial statements covering periods beginning on or after 1 January 2003. Earlier application is encouraged.

PSAK 51(Revised 2003).

The objective of a quasi-reorganization is to eliminate the deficit or negative retained earnings of an enterprise provided the enterprise is able to continue operating as a going concern and still has a good business prospect. The quasi-reorganization is conducted by revaluing all assets and liabilities at their fair values and eliminating the deficit by using, among others, the differences that result from the revaluation between the revalued amounts and the carrying amounts.

Some of the new requirements under this revised PSAK include, but are not limited to:

- Confirmation that a revaluation may result in write-up or write-down of net assets. Previously, para. 43 of PSAK No. 21: Accounting for Equity seems to indicate that a revaluation conducted for the purpose of a quasi-reorganization should result in assets write-down, but not write-up. That paragraph in PSAK 21 will be superseded by the revised PSAK 51.
- Retained earnings after quasi-reorganization must be zero.
- List and hierarchy of accounts that could be used to eliminate the deficit. Those accounts are:
 1. Legal Reserve;

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2. Special Reserves;
3. Differences from Revaluations of Assets and Liabilities (including: Fixed Assets Revaluation Surplus), and other differences such as: Changes in Fair Values of Available-For-Sale Securities, Differences Arising from Transactions that Affect Equity of Subsidiaries/Associates, and Other Comprehensive Income;
4. Translation Differences and other components of Paid In Capital; and
5. Capital Stock.

This standard supersedes the 1998 version of PSAK 51 and is applicable for quasi-reorganizations conducted after 10 December 2003. Earlier application is recommended.

ISAK No. 5

Para. 14 PSAK 50, Accounting for Investments in Certain Types of Securities states that unrealized gains or losses on available-for-sale ("AFS") securities should be recorded as a separate component in equity and can not be recorded as income until those gains or losses are realized.

Certain types of entities, in particular not-for-profit organizations and the entity that manages social security program (i.e. "Jamsostek"), have a unique equity structure. The equity (or "net assets") section in a not-for-profit organization may be classified as unrestricted, temporarily restricted or permanently restricted net assets. Meanwhile, *Jamsostek's* source of equity may come from participants' contributions and the government's (or owner's) paid-in capital.

This Interpretation deals with the question: for certain types of entities (in particular not-for-profit organizations and *Jamsostek*) that have investments in AFS securities, how should unrealized gains or losses from the investments be accounted for? (considering the fact that such entities have a unique structure of equity).

Interpretation 5 clarifies that for a not-for-profit organization, unrealized gains or losses from investments in AFS securities should be recognized in the equity (i.e. net assets) section and classified in accordance with the type of net assets to which the investments are attributable (i.e. either as unrestricted net assets, temporarily restricted net assets or permanently restricted net assets). Those unrealized gains or losses can not be recognized as income until they are realized.

In the case of *Jamsostek*, unrealized gains or losses from investments in AFS securities that arise from resources attributable to participants' contribution should be presented separately as part of the account "Obligation to the Participants" and can not be recognized as income until those gains or losses are realized.

This Interpretation is effective immediately.

ISAK No. 6

In accordance with para. 12 and 16 of PSAK 55 (revised 1999), a contract may contain an embedded derivative if it requires payment(s) denominated in the currency that is not the functional currency of either party of the contract. Such an embedded derivative should be reported separately from its host contract and should be measured at its fair value.

In Indonesia there are many contracts that require payments in a currency that is not the functional currency of either party of the contract. For example, leases of office space denominated in US Dollars when the functional currency of the lessor as well as the lessee is Rupiah. Subsequently a question arises: do all contracts that require payments in a currency that is not the functional currency of either party of the contract have to be treated as containing an embedded derivative that should be reported separately at its fair value?

This Interpretation, which is effective immediately, clarifies that contracts denominated in a foreign currency that is not the functional currency of either party of the contract do not contain an embedded derivative that has to be recorded separately at its fair value, provided that that foreign currency is commonly used in local business transactions. Example of such foreign currency commonly used in Indonesia is the US Dollar.

Exposure Draft - PSAK 38 (revised 2004)

Transfers of assets, liabilities, securities or other ownership instruments conducted for the purpose of restructuring entities under common control in economic substance do not constitute a change in ownership. Therefore such transactions should be recorded at their book values as if the pooling of interest method is applied. In addition, the difference between the transfer price and the book values of the assets, liabilities, securities and/or ownership instruments transferred should be recognized in equity under the account "Differences

Arising from Restructuring Transactions between Entities Under Common Control".

Under the previous version of PSAK 38, the equity account "Differences Arising from Restructuring Transactions between Entities Under Common Control", does not change even when the related assets, liabilities, securities or other ownership instruments are subsequently transferred to an outside party that is not under common control.

Under the Exposure Draft - PSAK 38 (revised 2004) it is proposed that the equity account be changed or even eliminated under certain circumstances, in particular when:

- there is a reciprocal transaction between the same entities under common control in the amount that will offset the amount in the original transaction;
- there is a quasi-reorganization
- in substance those entities are no longer under common control
- disposal to an outside party that is not under common control, of the assets, liabilities, securities, or other ownership instruments originally transferred between entities under common control.

For a comprehensive understanding of the standards and interpretations please read the publications issued by DSAK-IAI.

Other Developments

Other developments related to the Indonesian GAAP ("Generally Accepted Accounting Principles") include, but are not limited to:

- Exposure Draft ("ED") PSAK No. 16: Fixed Assets (Revised) is still under review by the standard setter, DSAK-IAI. It is likely that the Exposure Draft, which is largely based on International Accounting Standards ("IAS") 16: Property, Plant and Equipment, will be adopted as a standard later this year.
- DSAK-IAI plans to issue an interpretation on consolidation of Special Purpose Entities, which is based on SIC-12.
- DSAK-IAI has drafted a standard to revise PSAK 24: Accounting for Pension Benefit Costs. The draft is largely based on IAS 19: Employee Benefits.

If you have any concerns or questions regarding matters in this NewsFlash, please contact your engagement partner or Dudi Kurniawan of the PricewaterhouseCoopers Technical Committee at 62 21 521 2901 ext. 5508.