

ABAS NewsFlash

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PSAK NO. 24: EMPLOYEE BENEFITS (REVISED 2004) ISSUED

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The newsletter of the
PricewaterhouseCoopers organisation

Introduction

The Indonesian Accounting Standards Board of the Indonesian Institute of Accountants (or "DSAK – IAI") recently approved PSAK No. 24: Employee Benefits (revised 2004) for issuance.

In comparison with the previous version of PSAK 24 that only addresses pension benefits, PSAK 24 (revised 2004) provides more guidance for various types of employee benefits, namely:

- short-term benefits,
- post-employment benefits,
- other long-term benefits,
- termination benefits, and
- equity compensation benefits.

The revised version of PSAK 24 is based on International Accounting Standards No. 19, Employee Benefits.

Short term benefits

The accounting for short-term benefits is fairly straightforward. A company should accrue wages, salaries and other short-term benefits and recognize an expense for them. Compensated absences should be recognized as an expense when service is rendered by the employees (if the absences are accumulating) or when absence occurs (if absences are non-accumulating). Profit sharing and bonus plans are recognized when the company has a present legal or constructive obligation as a result of past events and a reliable estimate of the obligation can be made.

Post-employment benefits

There are two types of plans under the post-employment benefits: defined contribution and defined benefit plans. Under a defined contribution plan, employer contributions are accounted for when they are paid or when due.

In a defined benefits plan, the employer records an expense and a liability (or if the net liability is negative, an asset). The pension expense comprises of the following items: current service cost, interest costs, expected return on plan assets, actuarial gains and losses to the extent they are recognized, past service costs to the extent they are recognized and the effects of any curtailments and settlements. The liability is determined as the net total of the following: the present value of the defined benefits obligation as at the balance sheet date $+/-$ any actuarial gains ($-/-$ actuarial losses) not recognized $-/-$ any past service cost not yet recognized $-/-$ fair value of plan assets.

Unlike the previous version of PSAK 24 that did not specify the actuarial method and the discount rate used for determining pension liability, PSAK 24 (revised 2004) stipulates that the actuarial method that should be used is the Projected Unit Credit and the pension liability should be discounted by referring to the yields on high quality corporate bonds (or government bonds if there is no deep market for such corporate bonds). The new standard also states that the present value of defined benefits obligation and the fair value of plan assets should be calculated "with sufficient regularity that the financial statement amounts do not differ materially from those that would be determined at the balance sheet date".

The revised PSAK also requires that a portion of actuarial gains or losses be recognized as income or expense if they fall outside a certain "corridor".

Past service costs are recognized as an expense on a straight-line basis over the average period until they become vested. However those costs are recognized immediately if they are already vested.

Other long-term benefits

Examples of other long-term benefits are long-service leave, deferred compensation and long-term disability benefits. Computation for liability arising from other long-term benefits is more simple than that for post-employment benefits. The liability equals the present value of the defined benefits obligation as at the balance sheet date minus the fair value of the plan assets at the same date. Actuarial gains and losses and past service costs are recognized immediately

Termination benefits

Termination benefits is defined by PSAK 24 (revised 2004) as those benefits arising from "the company's decision to terminate an employee's employment before the normal pension age" or "an employee's decision to accept the company's offer to resign voluntarily in exchange for certain benefits". A liability for termination benefits should be recognized when the company has produced a formal plan with details on the location, functions and number of employees terminated and the implementation of the plan should begin as soon as possible such that there is little possibility of changes to the plan.

Stock-based compensation

PSAK 24 (revised 2004) provides guidance on items to disclose in a stock-based compensation scheme, but the standard does not establish new recognition and measurement rules. In fact, some of those recognition and measurement rules are already contained in PSAK No. 53, Accounting for Stock-Based Compensation.

Transitional provisions

When applying PSAK 24 (revised 2004) for the first time, a company should treat it as a change in accounting policy and applies the standard retrospectively. In other words, the impact of the new standard will adjust the beginning retained earnings of the earliest period presented and comparative information should be restated.

PSAK 24 (revised 2004) is applicable for annual financial statements covering periods beginning on or after 1 July 2004. However earlier application is encouraged.

Other standards

In addition to PSAK 24 (revised 2004) DSAK – IAI has also issued:

- PSAK No. 38: Accounting for Restructuring of Entities Under Common Control (revised 2004)
- ISAK No. 7: Interpretation of para. 5 and 19 of PSAK 4 "On Consolidation of Special Purpose Entities".

These standards will be discussed in the next Newsflash

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

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