

Assurance NewsFlash

July 2008

No. 2/2008

Outstanding accounting proposals

This edition of Newsflash will discuss several accounting standards proposals (Exposure Drafts or “ED”) currently outstanding, namely:

- ED PSAK 14 (revised 2008) on Inventories;
- ED PSAK 26 (revised 2008) on Borrowing Costs; and
- ED PSAK 58 (revised 2008) on Non-current Assets Held for Sale and Discontinued Operations

These proposals are based on International Accounting Standard (“IAS”) 2, IAS 23 and International Financial Reporting Standard (“IFRS”) 5, respectively. The proposals are expected to be finalised and launched as accounting standards within the next few months and will be applicable as of 2009.

Inventories

According to ED PSAK 14 (revised 2008), inventories are assets

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Assets held on an entity’s premises may not qualify as inventories if they are held on consignment (i.e. on behalf of another entity and no liability to pay for the goods exist unless they are sold).

Inventories should initially be recorded at cost. The cost of inventories includes import duties, non-refundable taxes, transport and handling costs and any other directly attributable costs less trade discounts, rebates and subsidies.

At subsequent balance sheet dates, inventories should be valued at the lower of cost and net realisable value (“NRV”). NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories should be assigned by using either the first-in, first-out (“FIFO”) or weighted average cost formula. An entity should use the same cost formula for all inventories that are similar in nature and use to the entity. Where inventories have a different nature or use, different cost formulas may be justified.

The main differences between ED PSAK 14 (revised 2008) and the previous version of PSAK 14 are that:

- Under the ED, the last-in, first-out (“LIFO”) method of inventory-costing is no longer permitted. The LIFO method was allowed under the previous version of PSAK 14
- The ED clarifies that an interest expense may arise on inventory purchases with deferred settlement terms. This explanation did not exist under the previous version of PSAK 14.

Borrowing costs

In accordance with ED PSAK 26 (revised 2008), borrowing costs may include:

- Interest on borrowings and bank overdrafts
- Amortisation of discounts or premiums arising from borrowings

- Amortisation of ancillary costs relating to the arrangement of borrowings
- Finance charges for finance leases
- Exchange differences arising from foreign currency borrowings to the extent that they are considered as an adjustment to interest costs.

An entity should capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. Specific and general borrowing costs can be capitalised. Amounts capitalised in any period cannot exceed the borrowing costs incurred during the period, and the resulting carrying amount of the qualifying asset cannot exceed its recoverable amount.

Capitalisation commences when the entity:

- incurs expenditures for the assets;
- incurs borrowing costs; and
- undertakes activities that are necessary to prepare the asset for its intended use or sale.

The differences between ED PSAK 26 (revised 2008) and previous version of PSAK 26, among others are that:

- The detailed guidance on the commencement, cessation and suspension of the capitalisation in the ED is slightly different from that in the previous version of PSAK 26 (even though the principles are broadly the same).
- The ED provides several examples of qualifying assets. Such examples were not provided in the previous version of PSAK 26.

Non-current assets held for sale and discontinued operations

Under ED PSAK 58 (revised 2008), a non-current asset (such as a property, a plant or a piece of equipment) or a disposal group should be classified as 'held for sale' where:

- its carrying amount will be recovered principally through a sale transaction rather than through continuing use;
- the asset is available for immediate sale in its present condition;
- its sale is highly probable (i.e. there is evidence of management commitment);
- there is an active program to locate a buyer and complete the plan;
- the asset is actively marketed for sale at a reasonable price; and
- the sale will normally be completed within one year from the date of classification.

A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and the liabilities directly associated with those assets that will be transferred in the transaction.

Assets (or disposal groups) classified as held for sale are:

- carried at the lower of the carrying amount and fair value less costs to sell;
- not depreciated or amortised; and
- presented separately on the face of the balance sheet.

A discontinued operation is a component of an entity that represents a separate major line of business or geographical area that can be distinguished operationally and financially and that the entity has disposed of or classified as held for sale. It could also be a subsidiary acquired exclusively for resale.

An operation is classified as discontinued at the date on which the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation. When the criteria for that classification are not met until after the balance sheet date, there is no retroactive classification.

Discontinued operations are presented separately in the income statement and the cash flow statement. There are additional disclosure requirements in relation to discontinued operations.

ED PSAK 58 (revised 2008) is different from the previous version of PSAK 58, in the following manners, among others:

- The scope of the ED is broader than that of the previous version of PSAK 58. As well as providing guidance for a discontinued operation, the ED also addresses the accounting treatment (including the classification and measurement) for non-current assets held for sale.
- The definition of a discontinued operation under the ED is slightly different from that of a discontinuing operation under the previous version of PSAK 58.

Other proposals

In addition to those mentioned above, there are several accounting proposals for *Sharia'* (or Islamic-based) transactions as follows:

- ED PSAK 107: Accounting for *Ijarah*
- ED PSAK 108: Accounting for Settlement of Troublesome *Murabahah* Debts
- ED PSAK 109: Accounting for *Zakat* and *Infaq*
- ED PSAK 110: Accounting for *Hawalah*
- ED PSAK 111: Accounting for *Sharia'* Insurance Transactions.

For a more comprehensive understanding of the proposals please refer to the related EDs.

Should you have any concern or question regarding matters in this NewsFlash, please contact your engagement partner or Dudi Kurniawan of PricewaterhouseCoopers' Technical Committee by phone at 62 21 521 2901 or email: dudi.m.kurniawan@id.pwc.com.

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