

Assurance NewsFlash

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IAI Issued Additional Guidance on First Time Application of the Financial Instruments Standards

The Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or IAI) has published Technical Bulletin No. 4: Transitional Provisions Upon First Time Implementation of PSAK 50 Revised 2006 ("PSAK 50R") and PSAK 55 Revised 2006 ("PSAK 55R"). Both PSAK 50 R and PSAK 55 R address accounting for financial instruments.

There are five issues addressed in this bulletin: a) Effective Interest Rate, b) Derecognition of Financial Instruments, c) Compound Financial Instruments, d) Classification of a Financial Instrument as a Debt or Equity, and e) Impairment of Financial Instruments. These issues are summarized below:

Effective Interest Rate

The effective interest rate for financial instruments measured at amortised cost that were acquired prior to and still have a balance remaining as at the date of first time implementation of PSAK 55 is calculated by referring to the future cash flows that will be generated from the time PSAK 55R is first implemented up to the maturity of the financial instruments.

Derecognition of Financial Instruments

Financial instruments that have been derecognized prior to the first time implementation of PSAK 55R should not be reassessed subsequently to determine whether they would meet the derecognition criteria under PSAK 55R.

Compound Financial Instruments

Compound financial instruments existing at the date of first time implementation of PSAK 50R should be bifurcated into debt and equity components in accordance with PSAK 50R's requirements. The bifurcation should be based on the nature, condition and requirements relating to those financial instruments as at the date of the first time implementation of PSAK 50R.

Classification of Financial Instruments as Debt or Equity

An entity should reassess its financial instruments existing as at the date of first time implementation of PSAK 50R, in order to determine whether they should be classified as a debt or equity instrument in accordance with the requirements in PSAK 50R.

Impairment of Financial Instruments

As at the date of the first time implementation of PSAK 55R, an entity should determine any possible impairment of financial instruments based on the conditions existing at that date. Any difference between the impairment resulting from the implementation of PSAK 55R and the impairment calculated based on previous applicable accounting principles is recognized in retained earnings at the date of first time implementation of PSAK 55R.

If the determination of the impairment based on PSAK 55R is not conducted at the date of first time implementation of PSAK 55R, then the entity should separate the current year's impairment charge recognized in the income statement and the previous period's impairment charge recognized in retained earnings. If the impairment charge can not be split, then the impairment charge is recognized in the income statement and that fact should be adequately disclosed in the notes to the financial statements.

IAI Has Revoked Three Accounting Standards

IAI has issued the Statement of Withdrawal of Financial Accounting Standards no. 1 (the Statement). The objective of the Statement is to revoke three industry-based accounting standards, namely:

1. PSAK 32: Accounting for Forestry
2. PSAK 35: Accounting for Revenue from Telecommunication Services
3. PSAK 37: Accounting for Tollroads.

These PSAKs are being revoked due to the following considerations:

- For the purpose of achieving convergence with the International Financial Reporting Standards ("IFRS"), it is important to ensure that accounting principles under the PSAKs are consistent with those under IFRS. Some of the principles under the revoked PSAKs are not consistent with those under currently applicable IFRS.
- To eliminate inconsistencies between the accounting principles under the revoked PSAKs and the Framework for Preparation and Presentation of Financial Statements.
- To eliminate duplication found in the revoked standards and other PSAKs.
- To reflect the fact that concepts and regulations underlying these three standards have changed since the time they were promulgated.

To enhance comparability of financial statements, companies that have been applying these three PSAKs are encouraged, but not required, to restate their financial statements for comparative periods.

The Statement stipulates that the withdrawal of these three PSAKs is effective for financial statements with periods beginning on or after 1 January 2010, but earlier application is allowed.

If you would like to access the soft file of this Statement please go to this IAI address: <http://iaiglobal.or.id/berita/detail.php?id=76>

Should you have any concerns or questions regarding matters in this NewsFlash, please contact your engagement partner or Dudi Kurniawan from the PwC Technical Committee, who can be reached on 62 21 521 2901 or dudi.m.kurniawan@id.pwc.com

Code of conduct The way we do business*

Putting our values in action Excellence

Delivering what we promise and adding value beyond what is expected. We achieve excellence through **innovation, learning and agility**.

Teamwork

The best solutions come from working together with colleagues and clients. Effective teamwork requires **relationships, respects and sharing**.

Leadership

Leading with clients, leading with people and thought leadership. Leadership demands **courage, vision and integrity**.

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