

Assurance NewsFlash

New Indonesian Accounting Standard Issued for Small and Medium-sized Entities



In July 2009 the Indonesian Accounting Standards Board, the standards-setting arm of the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or “IAI”) launched a very important accounting standard (“SAK”) for entities that are not publicly accountable. These entities are characteristically small and medium-sized entities (“SMEs”) or private entities.

This accounting standard for entities that are not publicly accountable, or SAK Entitas Tanpa Akuntabilitas (“SAK-ETAP”) as it is titled, is 182 pages long. It is a self-contained standard that consists of 30 chapters, outlining the accounting for many transactions and events that a small or medium-sized entity or a private entity that is not publicly accountable may face.

Background

The background of this standard is that IAI wants to provide a solution for many smaller entities that would have otherwise been required to implement the full set of International Financial Standards (or “IFRS”) when the IFRS is adopted in Indonesia in 2012. IFRS contains certain sophisticated concepts and has been credited for increasing transparency in corporate financial reporting and enabling cross-border financial performance comparability. However, this level of sophistication brings with it complexity and difficulty in understanding. IFRS has been criticized for demanding sophisticated measurement techniques which can result in relatively high cost of compliance. Consequently IFRS is deemed to be more suitable for larger entities, in particular those with public accountability. Such entities would include listed companies, those issuing debt and equity securities to the public, banks, and insurance companies.

The question then arises about the accounting treatment for smaller entities and private entities that typically are not publicly accountable. These companies account for more than 90 percent of the business community in Indonesia and worldwide. If they were required to apply full-scale IFRS this would be too cumbersome for them and the cost of implementing the IFRS may outweigh the benefits. That is why the International Accounting Standards Board decided to issue a special IFRS for Small and Medium-sized Entities. In the spirit of converging with IFRS and considering the needs of the smaller entities in Indonesia, IAI is adopting IFRS for Small and Medium Enterprises and made it even simpler.

Differences with full PSAK

SAK-ETAP is simpler than the full-scale PSAK. Key points of difference from the full PSAK are as follows:

- SAK-ETAP is much shorter and more concise than the full PSAK.
- Guidance for certain transactions unlikely to be entered into by an SME has been omitted.
- Measurements have been simplified.
- Disclosure requirements have been significantly reduced to far less than half.

To be more specific, following are examples of some, but not all, differences between the full PSAK and SAK-ETAP:

Differences	Full PSAK	SAK-ETAP
Method used for reporting cash flows from operating activities	Allows either direct method or indirect method	Only prescribes indirect method
Financial assets and financial liabilities	Addresses financial assets and financial liabilities in general	Only addresses certain instruments such as investments in securities
Effective interest rate method	Required for investments measured at amortised cost	Not explicitly required for investments measured at amortised cost
Business combinations and resulting goodwill	Addresses business combinations and goodwill	Does not address business combinations and goodwill
Investments in subsidiaries	Investor consolidates the financial statements of its subsidiaries	Investor accounts for the investment using the equity method
Investment in associates	Uses equity method	Uses cost method
Property, plant and equipment ("PPE") – measurement	At cost or at fair value. But if fair value basis is chosen, further revaluations should be performed on a consistent basis.	At cost, but one-off revaluations are allowed if meeting government regulations
PPE – depreciation using component approach	Every major component of PPE has to be depreciated separately	No explicit requirement to depreciate every major component separately
Investment property – measurement	Allows either cost model or fair value model	Cost model only
Intangible assets – development costs	Development costs may be recognized as an asset when meeting certain criteria	Development costs in general are recognized as current period expense
Income tax	Covers current and deferred tax	Current tax only
Pension benefits obligation – measurement	Requires the use of projected unit credit actuarial method	May use simplified method if projected unit credit necessitates undue cost or effort

To adopt or not to adopt

Non-publicly accountable entities will have the choice of continuing with full-scale PSAK accounting or following SAK-ETAP framework. However, entities will not be able to swap between the frameworks from one reporting period to the next. Unless a change in circumstances arises it is envisaged once a framework is adopted it will be used consistently henceforth. Therefore careful consideration should be given before deciding on the accounting framework to be adopted.

Applicable date

SAK-ETAP is applicable for financial statements with periods beginning on or after 1 January 2011. Earlier adoption is allowable; however, early adoption may only be conducted on financial statements prepared on or after 1 January 2010.

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



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