

A Practical Guide to the New and Revised Indonesian Financial Standards for 2016



Introduction

This publication is a practical guide to the revised Indonesian Financial Accounting Standards (“IFAS”) and new interpretation which comes into effect in 2016. In order to further align IFAS with global standards, the Indonesian Financial Accounting Standards Board (“DSAK-IAI”) has amended several existing standards, containing amendments and annual improvement projects, and is introducing one new Interpretation. As a result, by 2016 IFAS will be substantially converged with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) up to 2015.

A few amendments to existing standards have been issued and are effective for annual periods beginning on or after 1 January 2016: (a) amendment to PSAK 24, ‘Employee benefits’, concerning defined benefit plans that require employees or third parties to contribute towards the costs of benefits; (b) amendment to PSAK 66, ‘Joint arrangements’ on accounting for acquisitions of interests in joint operations; (c) amendment to PSAK 16 ‘Fixed assets’ and PSAK 19 ‘Intangible assets’ on clarification of acceptable methods of depreciation and amortisation; (d) amendments to PSAK 4, ‘Separate financial statements’ on equity method in separate financial statements; and (e) amendments to PSAK 65,

‘Consolidated financial statements’, PSAK 15, ‘Investments in associates’ and PSAK 67 ‘Disclosure of interest in other entities’ on Investment entities applying the consolidation exemption.

The 2015 annual improvements project is adopting several IASB annual improvement cycle projects containing nine amendments and all the amendments are effective for annual periods beginning on or after 1 January 2016.

One interpretation – ISAK 21, ‘Levies’, was published in relation to PSAK 57, ‘Provisions, contingent liabilities and contingent assets’. PSAK 57 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy and is effective 1 January 2016.

DSAK IAI also has issued an amendment to PSAK 1 ‘Presentation of financial statements’ regarding disclosure initiative and ISAK 31 ‘Interpretation on the scope of PSAK 13: Investment Property’ to be effective in 1 January 2017 and PSAK 69 ‘Agriculture’ and amendment

of PSAK 16 ‘Fixed assets’ regarding bearer plants to be effective 1 January 2018. Brief explanations of these requirements are included in Appendix A: Forthcoming Requirements.

In the appendix sections, we also include ‘Illustrative Disclosure of New and Amended Standards’ containing disclosures and their impact on the new and amended standards and ‘Impact Assessment Flowcharts on Adoption of the Amended Standards Effective 2016’ containing flowchart illustrations in analyzing transactions, arrangements, and current accounting treatments affected by the amended PSAKs effective 2016. We believe that this information can help preparers of financial statement to ensure compliance with the amended PSAKs effective 2016.

Lastly, it is worth noting that there are three major standards that have been issued but which are not yet applicable at the global level – IFRS 9, ‘Financial instruments’, IFRS 15, ‘Revenue from contracts with customers’ and IFRS 16 ‘Leases’. It is clear that the intention of the Indonesian standard setters is to reach international convergence. Thus, we can expect that these standards will also be adopted locally in the very near future. Stay tuned!

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Amended Standards

Employee contributions Amendments to PSAK 24, 'Employee benefits'

Early adoption is not permitted
Transition Provision: Retrospective

What is the issue?

This amendment clarifies the application of PSAK 24 (Revised 2013) ('PSAK24R') to defined benefit plans that require employees or third parties to contribute towards the cost of benefits. The amendment does not affect the accounting for voluntary contributions, or often referred to as discretionary contribution.

Some pension plans require employees or third parties to contribute to the plan. Employee contributions reduce the cost to the employer of providing the benefits while for third party contribution, entity need to consider whether it reduce the cost of benefits or are a reimbursement right. Common practice under the previous version of PSAK 24 was to deduct the contributions from the cost of the benefits earned in the year in which the contributions were paid.

PSAK 24R, which is applicable to periods commencing on or after 1 January 2016, was intended to clarify the treatment of contributions from employees or third parties. However, the revised guidance is open to a range of potentially complex interpretations and could require most entities to change the way in which they account for these contributions.

What are the impacts?

The 2013 revisions to PSAK 24 distinguished between contributions related to service and those not linked to service. The current amendment further distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. In our view, a contribution that is payable out of current salary is linked to service.

The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period in which the service is provided.

The amendment will allow (but not require) many entities to continue accounting for contributions using their existing accounting policy, rather than spreading them over the employees' working lives.

Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. This means either in accordance with the formula in the pension plan or where the plan provides a materially higher level of benefit for service in later years, on a straight line basis.

The benefit of employee contributions linked to the length of service is recognized in profit or loss over the employee's working life. It is not clear how this should be done, and a variety of approaches are likely to develop.

Contributions that are not linked to service are reflected in the measurement of the benefit obligation.

The accounting requirements for contributions from employees or third parties are illustrated the diagram below:

Example 1

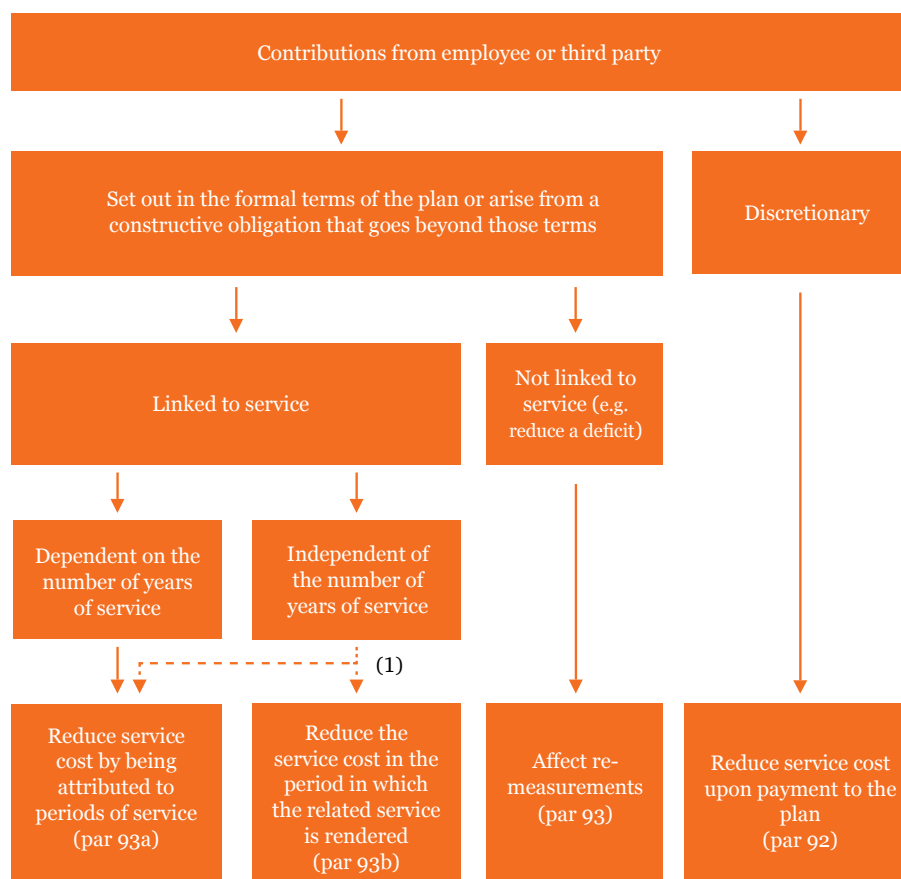
A plan that requires employees to contribute 40% of salary if they are below age 40, and 7% of salary if they are 40 or above, is an example of a plan in which employee contributions are not linked to the length of service.

The contributions are linked to age and salary, but not dependent on the length of service. So the contributions would be recognised as a reduction of pension expense in the year in which the related service is delivered.

Example 2

A plan that provides a lump sum benefit on retirement of 10% of final salary for the first ten years of service, plus 20% of final salary for each subsequent year of service, and requires employee contributions equal to 5% of salary for the first ten years of service and 8% thereafter, is a plan in which contributions are linked to the length of service.

The contributions vary with the length of service, as well as salary, and so they have to be recognised over the working life. The benefit earned and the employee contributions would be recognised on a straight line basis over the employee's working life in this example.



(1) This dotted arrow means that the entity is permitted to choose either accounting

Example 3

A post-employment medical insurance plan, where the employee is required to meet the first Rp 200 thousand per month of the insurance premium, is an arrangement in which the contributions are not linked to service. The expected future contributions from the employee, which would be payable after retirement, would be included in the measurement of the benefit obligation.

Am I affected?

The amendment to PSAK 24 will affect any post-employment benefit plans where employees or third parties are required to meet some of the cost of the plan.

The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period.

Entities with plans that require contributions that vary with service will be required to recognize the benefit of those contributions over the employees' working lives. Management should consider how it will apply that model.

Accounting for acquisitions of interests in joint operations

Amendments to PSAK 66, 'Joint Arrangements'

Early adoption is not permitted
Transition provision: Prospective

What is the issue?

The DSAK IAI has amended PSAK 66, 'Joint arrangements', to provide specific guidance on accounting for the acquisition of an interest in a joint operation ('JO') that is a business.

The amendments address diversity in practice related to the accounting for these transactions.

What are the impacts?

Application of PSAK 22 Business Combination principles

The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a JO that constitutes a 'business' (as defined in PSAK 22).

Specifically, an investor will need to:

- Measure identifiable assets and liabilities at fair value;
- Expense acquisition-related costs as incurred;
- Recognize deferred tax, except those that arise from the recognition of goodwill; and
- Recognize the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with PSAK 66.

The amendments are applicable to both the acquisition of the initial interest in a JO and the acquisition of the additional interest in the same JO. However, a previously held interest is not remeasured when the acquisition of an additional interest in the same JO results in retaining joint control.

Scope

The amendments will apply to the acquisition of an interest in an existing JO that is a business, or when a JO is formed and an existing business is contributed. However the amendments do not apply when the formation of JO coincides with the formation of a business. Transactions between an investor and a JO under common control are also excluded.

Disclosures

The amendments require the disclosure of information specified in PSAK 22 and other PSAKs for business combinations.

Am I affected?

Entities in oil and gas, mining and power sectors will be most affected by the amendments, although joint operations are seen across a broad range of industries. Joint arrangements are frequently used as the most effective method for multi-nationals to access emerging markets, and those reporting entities may be similarly affected.

The change required by the amendments is likely to increase the pressure on the definition of *what is a business* and the classification of joint arrangements under PSAK 66.

Clarification of acceptable methods of depreciation and amortization

Amendments to PSAK 16, 'Fixed Assets' and PSAK 19, 'Intangible Assets'

Early adoption is not permitted
Transition provision: Prospective

What is the issue?

The DSAK IAI has amended PSAK 16, 'Fixed Asset' and PSAK 19, 'Intangible assets' to clarify when a method of depreciation or amortization based on revenue may be appropriate.

The amendment to PSAK 16 clarifies that depreciation of an item of fixed assets based on revenue generated by using the asset is not appropriate.

The amendment to PSAK 19 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances. These are:

- Where an intangible asset is expressed as a measure of revenue; or
- Where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

What are the impacts?

Fixed Assets

It is unlikely that the amendment to PSAK 16 will have a significant impact, as few entities use a revenue-based approach to depreciation.

Intangible assets

Entities which have intangible assets under ISAK 16, Service concessions may see a significant impact from the amendment if they have previously used a method based on revenue to amortize the intangible asset.

The entertainment and media industry may also see a significant impact from the amendment. Intangible assets arising from program rights are frequently amortized using a declining balance method as the majority of revenues arise from the first showings.

Am I affected?

There are many methods of depreciation and amortization which are permitted by PSAK 16 and PSAK 19. Some of these may result in an amortization profile not unlike one based on revenues; for example, the reducing balance method and the units of production method. Preparers for whom the amendment is significantly may find it useful to explore these options.

Equity method in separate financial statements

Amendments to PSAK 4, 'Separate Financial Statements'

Early adoption is not permitted
Transition provision: Retrospective

What is the issue?

The DSAK IAI has amended PSAK 4, 'Separate financial statements', to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

Key amendments

An entity can now account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost; or
- In accordance with PSAK 55, 'Financial Instruments: Recognition and Measurement'; or
- Using the equity method as described in PSAK 15

What are the impacts?

The amendment is expected to reduce efforts in unwinding consolidation adjustments for entities that prepare separate financial statements, as an attachment to its consolidated financial statements, in which they account for investments in subsidiaries, joint ventures and associates using the equity method. Prior to this amendment, the entity that prepares separate financial statement keeps a separate recording for their investment balance either using cost or fair value.

Am I affected?

Retrospective application may be challenging for those entities who do not already prepare separate financial statements using the equity method as the figures from the previous consolidated financial statements may require adjustment.

Investment entities: Applying the consolidation exception

Amendments to PSAK 15, 'Investments in Associates and Joint Ventures', PSAK 65, 'Consolidated Financial Statements, and PSAK 67, 'Disclosure of Interests in Other Entities'

This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

Equity accounting for investments in associates and joint ventures

The amendments to PSAK 15 allow an entity that is not an investment entity, but has an interest in an associate or joint venture which is an investment entity, a policy choice when applying the equity method of accounting. The entity may choose to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture.

Disclosures

The amendments to PSAK 67 clarify that an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with PSAK 65 shall present the related disclosures required by PSAK 67.

Am I affected?

The amendments clarify the relief from consolidation that is available to entities in group structures involving investment entities and are likely to reduce the number of entities which produce consolidated financial statements.

The amendments also provide relief to non-investment entity investors in associates and joint ventures who would otherwise incur practical difficulties or additional costs in unwinding fair value measurements and performing additional consolidations.

Early adoption is not permitted
Transition provision: Retrospective

What is the issue?

The DSAK-IAI published amendments to PSAK 15, 'Investments in associates and joint ventures', PSAK 65, 'Consolidation financial statements' and PSAK 66, 'Disclosure of interest in other entities' on 18 November 2015. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

What are the impacts?

Exception from preparing consolidated financial statements

The amendments to PSAK 65 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities that are subsidiaries of investment

entities. The exception is available when the investment entity parent measures its subsidiaries at fair value.

The intermediate parent would also need to meet the other criteria for exceptions listed in PSAK 65.

Subsidiaries which act as an extension of an investment entity

The amendments to PSAK 65 clarify that an investment entity should consolidate a subsidiary that is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.

However, the amendments confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss.

New Interpretation

ISAK 30 Levies

ISAK 30, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation could result in recognition of a liability later than today, particularly in connection with levies that are triggered by circumstances on a specific date.

Early adoption is not permitted
Transition provision: Retrospective

What is the issue?

Scope and objective

Levies are imposed by governments in accordance with legislation and are often measured by reference to an entity's revenues, assets or liabilities (for example, 1% of revenue).

The interpretation addresses diversity in practice around when the liability to pay a levy is recognized. Practice differs particularly when a levy is measured based on financial data relating to a period before the date on which the obligation to pay the levy arises.

ISAK 30 addresses the accounting for a liability to pay a levy recognized in accordance with PSAK 57, 'Provision', and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of PSAK 46, 'Income taxes'. Its application to liabilities arising from emissions trading schemes is optional.

The interpretation does not address whether the liability to pay a levy gives rise to an asset or an expense.

Entities will need to apply other standards to determine the accounting for the debit.

Key provisions

ISAK 30 addresses the following issues:

- a. What is the obligating event that gives rise to a liability to pay a levy?

The obligating event that gives rise to a liability to pay a levy is the event identified by the legislation that triggers the obligation to pay the levy.

The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future.

- b. When is a liability to pay a levy recognized?

A liability to pay a levy is recognized when the obligating event occurs. This might arise at a point in time or progressively over time.

The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognized when the threshold is reached.

Example 1

Levy A – 1% of current year revenues is due if the entity is operating on 1 January.

A liability equal to 1% of the current year revenues is recognized progressively as revenue is generated.

Levy B – 1% of prior year revenues is due if the entity is operating on 1 January.

A liability equal to 1% of the prior year revenues is recognized in full on 1 January.

Levy C – 1% of current year revenues is due if the entity is operating on 31 December.

A liability equal to 1% of the current year revenues is recognized in full on 31 December.

Example 2

Levy D – 1% of current year revenues is due if the entity is operating on 1 January (same as Levy A) and if the current year's revenue exceeds Rp20 bio.

A liability equal to 1% of Rp20 bio is recognized in full when the threshold is reached. The liability is then increased progressively as revenue over Rp20 bio is generated.

c. Is the accounting at an interim reporting date the same as at year end?

The same recognition principles apply in interim and annual financial statements. The obligation should not be anticipated or deferred in the interim financial report if it would not be anticipated or deferred in annual financial statements.

The interpretation provides examples that illustrate the accounting for the liability to pay a levy.

Am I affected?

ISAK 30 will affect entities that are subject to levies that are not income taxes within the scope of PSAK 46. These are common in many industries – tobacco, mining and telecommunications, to name a few.

Annual Improvements (penyesuaian) 2015

In 2015, DSAK IAI continue IFRS convergence process by adopting several IASB Annual improvement cycle 2010-2012 and annual improvement cycle 2011-2013. The improvements do not provide new principles or significant changes to existing principles; they only clarify the existing concepts.

The table below identifies the more significant changes to the standards arising from Annual Improvement (penyesuaian) 2015 and its implications.

Standard	Amendment	Effective date
PSAK 5, 'Operating segments'	<p>The standard is amended to require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated segments share similar economic characteristics.</p> <p>The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.</p>	1 January 2016, early adoption is permitted
PSAK 7, 'Related party disclosures'	<p>The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').</p> <p>The reporting entity is not required to disclose the compensation paid by management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by management entity for services provided.</p>	1 January 2016, early adoption is permitted
PSAK 13, 'Investment property'	The standard is amended to clarify that PSAK 13 and PSAK 22 are not mutually exclusive. The guidance in PSAK 13 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in PSAK 22 to determine whether the acquisition of an investment property is a business combination.	1 January 2016, early adoption is permitted

Standard	Amendment	Effective date
PSAK 16, 'Fixed assets' and PSAK 19, 'Intangible assets'	<p>Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.</p> <p>The carrying amount of the asset is restated to the revalued amount.</p> <p>The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:</p> <ul style="list-style-type: none"> • Either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or • The accumulated depreciation is eliminated against the gross carrying amount of the asset. 	1 January 2016, early adoption is permitted
PSAK 22, 'Business combinations'	<p>The standard is amended to clarify that PSAK 22 does not apply to accounting for the formation of any joint arrangement under PSAK 66. The amendment also clarifies that the scope exemption applies only to the financial statements of the joint arrangement itself.</p> <p>The standard also clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in PSAK 50: Financial Instruments: Presentation.</p>	1 January 2016, early adoption is permitted

Standard	Amendment	Effective date
	<p>The standard further clarifies that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit or loss.</p> <p>Consequential changes are also made to PSAK 55 and PSAK 57 Provisions, Contingent Liabilities and Contingent Assets.</p>	
PSAK 25, 'Accounting policies, changes in accounting estimates and errors'	The amendment made editorial correction on PSAK 25 paragraph 27 relating to the limitation on retrospective application.	
PSAK 53, 'Share-based payment'	The amendment clarifies the definition of a vesting condition and separately defines performance condition and service condition.	1 January 2016, early adoption is permitted
PSAK 68, 'Fair value measurement'	The amendment clarifies that the portfolio exception in PSAK 68, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope PSAK 55.	<p>1 January 2016, early adoption is permitted</p> <p>An entity shall apply the amendment prospectively from the beginning of the first annual period in which PSAK 68 is applied.</p>

Appendix A - Forthcoming Requirements

Title	Key Requirements	Effective date
PSAK 69, 'Agriculture'	<p>PSAK 69 provides definition and recognition criteria for biological assets or agricultural produce. Those assets are measured at fair value less cost to sell with the changes in the carrying amounts recognized in the profit or loss.</p> <p>PSAK 69 defines bearer plants which are excluded from the scope of this standard.</p>	1 January 2018, in accordance with PSAK 25. Early adoption is permitted. If the entity applies earlier, it shall disclose that fact.
ISAK 31, 'Interpretation on the scope of PSAK 13: Investment Property'	ISAK 31 provides interpretation on the characteristic of a building that meets the definition of investment property by PSAK 13. The interpretation provides the general characteristics of a building such as walls, floors and roofs that are attached to the building.	1 January 2017, early adoption is permitted. The interpretation provides specific transition provision.
Disclosure Initiative – Amendments to PSAK 1, 'Presentation of Financial Statements'	<p>The amendments to PSAK 1 are made in the context of exploring how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:</p> <ul style="list-style-type: none"> • Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance. • Disaggregation and subtotals – line items specified in PSAK 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals. • Notes – confirmation that the notes do not need to be presented in a particular order. • OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income. <p>This amendment leads to consequential amendments of certain other PSAKs as follows</p> <ul style="list-style-type: none"> - PSAK 3: Interim Financial Reporting - PSAK 5: Operating Segments - PSAK 60: Financial Instrument: Disclosures - PSAK 62: Insurance Contracts 	1 January 2017, early adoption is permitted.
Agriculture: Bearer plants – Amendments to PSAK 16	With the adoption of PSAK 69 where bearer plants are distinguished from biological assets, PSAK 16 was amended to provide clarification that biological asset that meets the definition of bearer plants are accounted for as fixed assets; definition, recognition and measurement of the bearer plants shall be made in accordance with PSAK 16.	1 January 2018, in accordance with PSAK 25. Early adoption is permitted. If the entity applies earlier, it shall disclose that fact.

Appendix B - Illustrative Disclosure of New and Amended Standards

The purpose of this appendix is to highlight disclosure requirements and provide example disclosures. The disclosures should be adapted to particular situations as required. Please note that the amounts disclosed in this appendix are purely for illustrative purposes and not necessarily interrelated with other example throughout the appendix. The highlighted parts in the reference column indicate new requirements or revisions to existing requirements.

Alternative disclosures, wording and forms of presentation may be used as long as they include the specific disclosures prescribed in the accounting and reporting pronouncements.

Note 2 – Significant accounting policies

Changes to the statements of financial accounting standards and interpretations of statement of financial accounting standards

PSAK 25p28

On 1 January 2016, the Group adopted new and revised statements of financial accounting standards (“SFAS”) and interpretations of statements of financial accounting standards (“ISFAS”) that are mandatory for application from that date. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective standards and interpretations.

The adoption of the following new or revised standards and interpretations which are relevant to the Group’s operations and resulted in an effect on the consolidated financial statements is as follows:

SFAS 15 “Investment in associates and joint venture”

The amendment to PSAK 15 clarifies that an entity, that is not an investment entity but has an interest in an associate or joint venture which is an investment entity, has an accounting policy choice, when applying the equity method of accounting, to retain the fair value measurement applied by the investment entity associate or joint venture.

As a result to the adoption of the amendments to PSAK 15, the Company has retained its accounting policy with respect to its investment in associate that is an investment entity.

SFAS 24 “Employee Benefit”

The amendment of PSAK 24 clarifies that third party contributions that are linked to service and vary according to the length of employee service must be spread over the service period using the same attribution method that is applied to the benefits. Meanwhile, third party contributions that are linked to service and do not vary with the length of employee service, may be deducted from the cost of benefits incurred in the period in which the service is rendered.

The transition provision requires retrospective application and the Group has reflected the changes from this amendment in Note 3.

Changes to the statements of financial accounting standards and interpretations of statement of financial accounting standards (continued)

SFAS 65 “Consolidated financial statements”

The amendment to PSAK 65 clarifies that an investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity’s investment activities.

As a result to the adoption of the amendment to PSAK 65, the Company has changed its accounting policy with respect to its investment in an investment entity subsidiary that has a subsidiary which is not an investment entity. The non-investment entity subsidiary which was previously accounted for at fair value through profit or loss is now being consolidated. The transition provisions require retrospective application in accordance with PSAK 25. However, it specified that an entity need only present the quantitative information required by paragraph 28(f) of PSAK 25 for the annual period immediately preceding the date of initial application. Comparative information has been restated in accordance with the transition guidance and is disclosed in Note 3.

SFAS 66 “Joint arrangements”

The amendment to PSAK 66 clarifies that an investor must apply the principles of business combination accounting when it acquires an interest in a JO that constitutes a ‘business’. The amendments are applicable to both the acquisition of the initial interest in a JO and the acquisition of the additional interest in the same JO. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same JO results in retaining joint control.

The Group has applied this amendment in its new acquisition of PT JO and discloses the transaction in accordance with PSAK 22 requirements. See details in Note 5.

IFAS 30 “Levies”

IFAS 30, ‘Levies’, sets out the accounting for an obligation to pay a levy if that liability is within the scope of PSAK 57 ‘Provisions’. The interpretation clarifies when a liability should be recognised. As a result of this new interpretation, the Group has restated its comparative amounts in accordance with the transition guidance and is disclosed in Note 3.

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The adoption of these new and revised standards and interpretations did not result in substantial changes to the Group’s accounting policies and had no material effect on the amounts reported for the current or prior financial periods:

- SFAS 4 “Separate financial statements”
- SFAS 16 “Fixed assets”
- SFAS 19 “Intangible assets”
- SFAS 67 “Disclosure of interests in other entities”
- Annual Improvements 2015

PSAK 5 (Annual Improvements 2015)

The description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments, that share similar economic characteristics, shall be disclosed.

Note 5 - Segment information

(a) Description of segments and principal activities.

PSAK 5p22(a),(b)	<p>The group's strategic steering committee, consisting of the chief executive officer, the chief financial officer and the manager for corporate planning, examines the group's performance both from a product and geographic perspective and has identified six reportable segments of its business:</p> <p>1,2: Furniture manufacturing – Surabaya and Jakarta: this part of the business manufactures and sells commercial office furniture, hardwood side boards, chairs and tables in Surabaya and Jakarta. The committee monitors the performance in those two regions separately.</p>
PSAK 5p22(aa)	<p>3: Furniture retail – since January 2015, the manufacturing business has been supplemented by a chain of retail stores in Surabaya. While the committee receives separate reports for each region, the stores have been aggregated into one reportable segment as they have similar average gross margins and similar expected growth rates.</p> <p>4,5: IT consulting – business IT management, design, implementation and support services are provided in the US and in a number of European countries. Performance is monitored separately for those two regions.</p> <p>6: Electronic equipment – Although this part of the business is not large enough to be required to be reported under the accounting standards, it has been included here as it is seen as a potential growth segment which is expected to materially contribute to group revenue in the future. This segment was established following the acquisition of PT Assurance Group in April 2016.</p>
PSAK5p16	<p>All other segments – The development of residential land, currently in the New Homes Estate in Jakarta and the New City Homes in Surabaya, the purchase and resale of commercial properties, principally in Jakarta and Medan and the management of investment properties are not reportable operating segments, as they are not separately included in the reports provided to the strategic steering committee. The results of these operations are included in the 'all other segments' column. The column also includes head office and group services.</p>

PSAK 7 (Annual Improvements 2015)

An entity (“the management entity”) or any member of group of which it is a part of, that provides key management personnel services to the reporting entity or to the parent of the reporting entity is a related party. Thus, it should be considered in the related party disclosure requirements of PSAK 7.

However, the reporting entity is not required to disclose the compensation paid by management entity to the management entity’s employees or directors, but it is required to disclose the amounts incurred by the reporting entity for the services provided

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2015 <i>Rp millions</i>	2014 <i>Rp millions</i>
Sales and procurement of goods and service		
Sale of goods to associates	125,222	-
Procurement of management service	450,000	370,000
Procurement of electronic equipment from other related parties	182,232	78,300

PSAK 66 (Amendment)

Similar disclosure requirement for business combination under PSAK 22 shall be applied when an entity acquires an interest in a JO that constitutes a ‘business’.

Note 3 – Business Combination

67p19A	On 30 June 2016, The Group acquired 40% ownership interest in Joint Control Metal Project (JC Metal Project), a joint operation which operates shipping service in Tanjung Priok Harbour, for Rp 300
22pPP64(d)	As a result of the acquisition, the Group is expected to increase its efficiency in delivering the product within Indonesia.
22pPP64 (e);(k)	The goodwill of IDR 72 arising from the acquisition is attributable to acquired customer base and economies of scale expected from combining the operation of the Group and Metal Project. None of the goodwill recognized is expected to be deductible for income tax purposes
2P40(b)	The following table is the reconciliation of cash flow payment and receipt from of acquisition of interest in joint operation
	30 June 2016
	Cash consideration 300
	Less balance of cash acquired 0
	Cash outflow – investing activities 300

Note 3 – Business Combination (continued)

22pPP64(i) Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

	<i>Fair value</i>
Property, plant and equipment	345
Intangible asset (exclude goodwill)	180
Trade receivable	210
Inventory	175
Employee benefit obligation	(30)
Trade payable	(120)
Contingent liability	(130)
Deferred tax liability	<u>(60)</u>
Total identifiable net asset	570
Portion of Joint Operator Partner	(342)
Goodwill	<u>72</u>

300

22p53 Acquisition-related costs of Rp 50 have been charged to administrative expense in the profit or loss for the year ended 31 December 2016.

22pPP64 (h)(i) The fair value of trade and other receivable is Rp 210. The gross contractual amount for trade receivable is 226. It is expected that Rp 16 of the trade receivable is uncollectible.

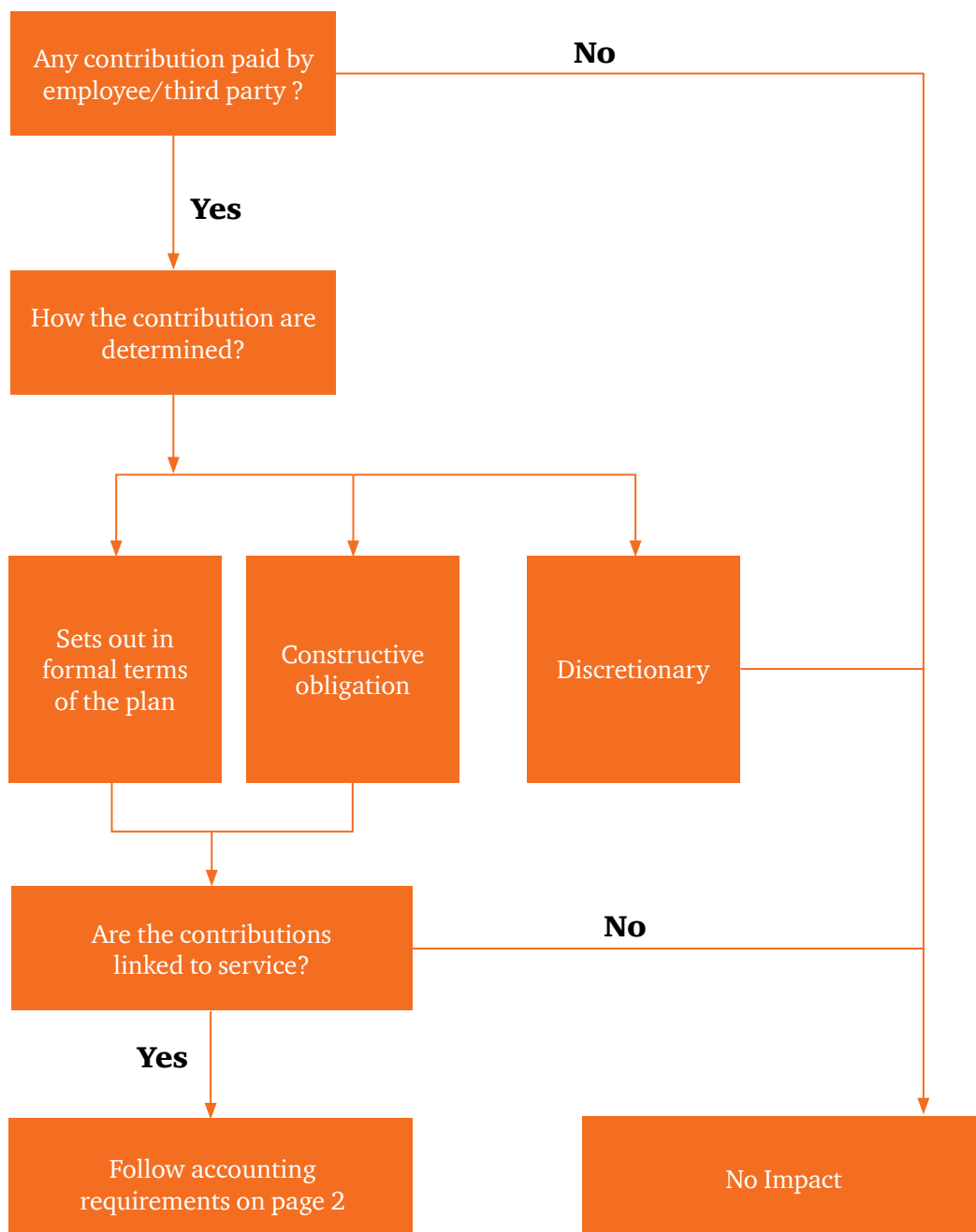
22pPP64 (q)(ii) The revenue included in profit or loss since 30 June 2016 contributed by JC Metal Project was Rp 480. JC Metal Project also contributed a profit of Rp 100 over the same period.

22pPP64 (q)(ii) If JC Metal Project had been acquired from 1 January 2016, the statement of profit or loss would show proforma revenue Rp 900 and proforma profit of Rp 230

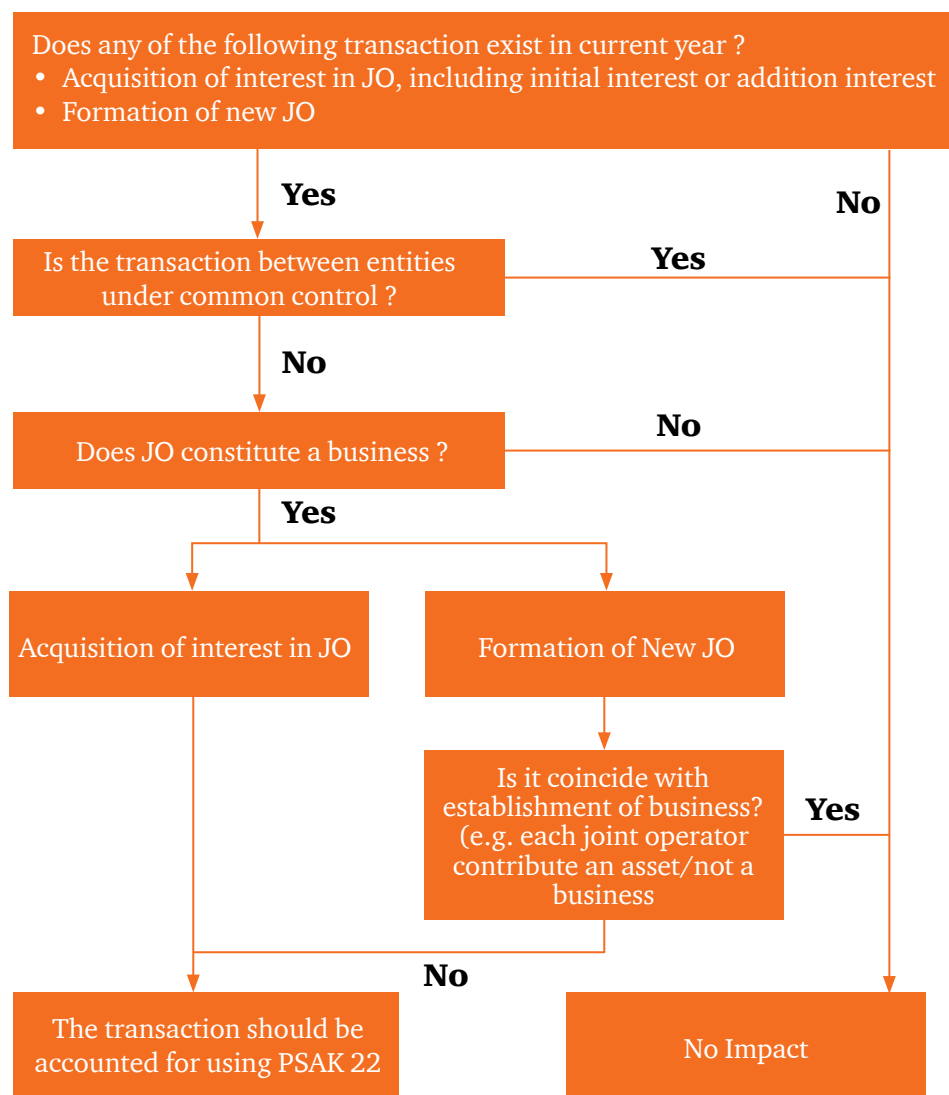
Appendix C – Impact Assessment Flowchart on Adoption of the Amended Standards Effective 2016

The following illustrations depict the flow of information and inquiries entities have to gather and carry out in analyzing transactions, arrangements, and current accounting treatments so as to ensure compliance with the amended PSAKs effective 2016.

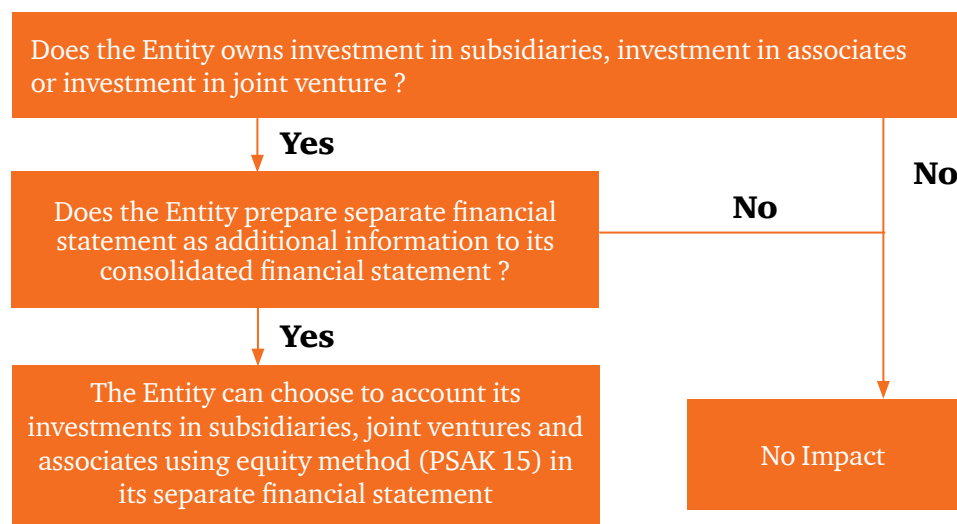
Amendments to PSAK 24 – Employee Contribution



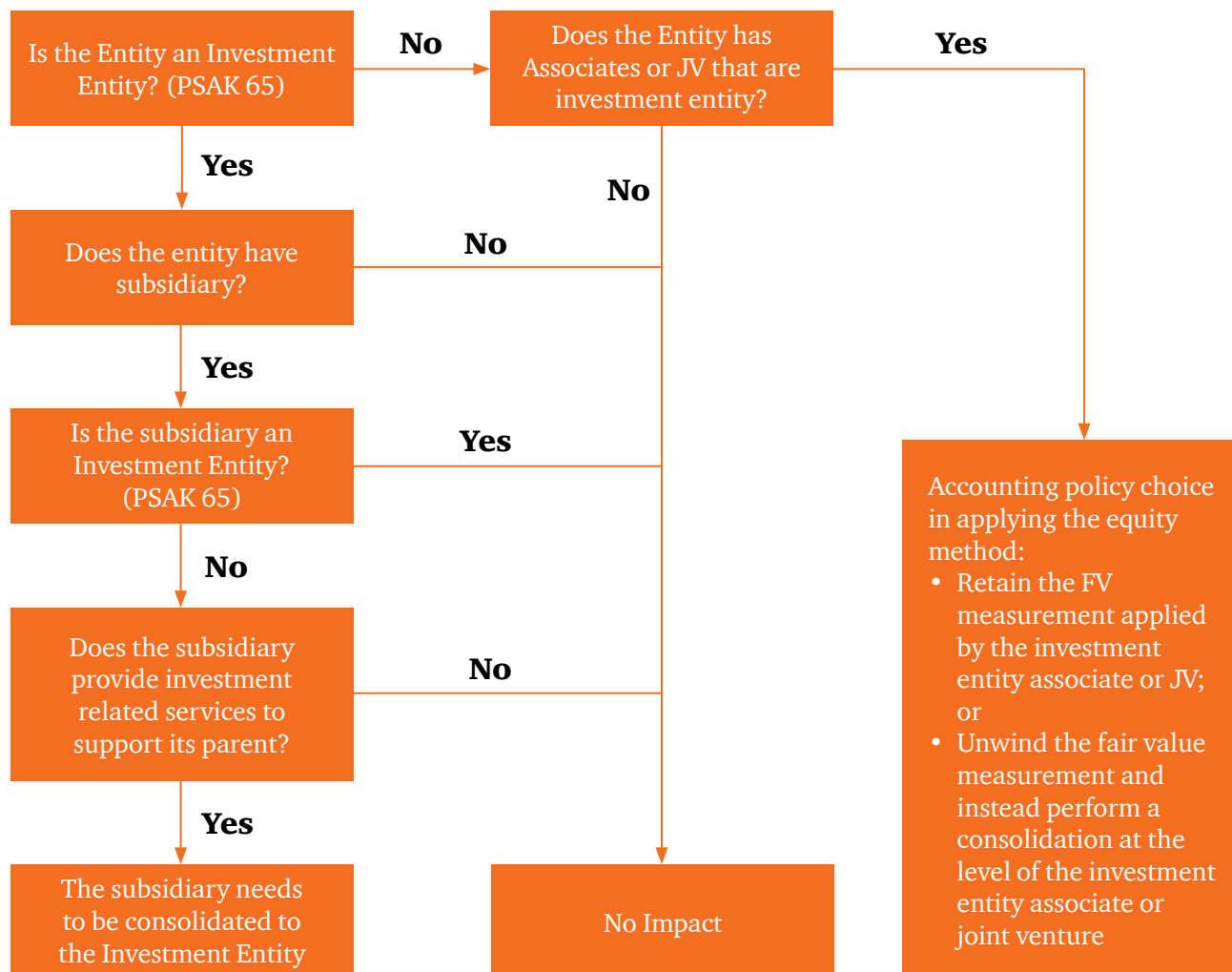
Amendments to PSAK 66 – Accounting for acquisition of interest in JO



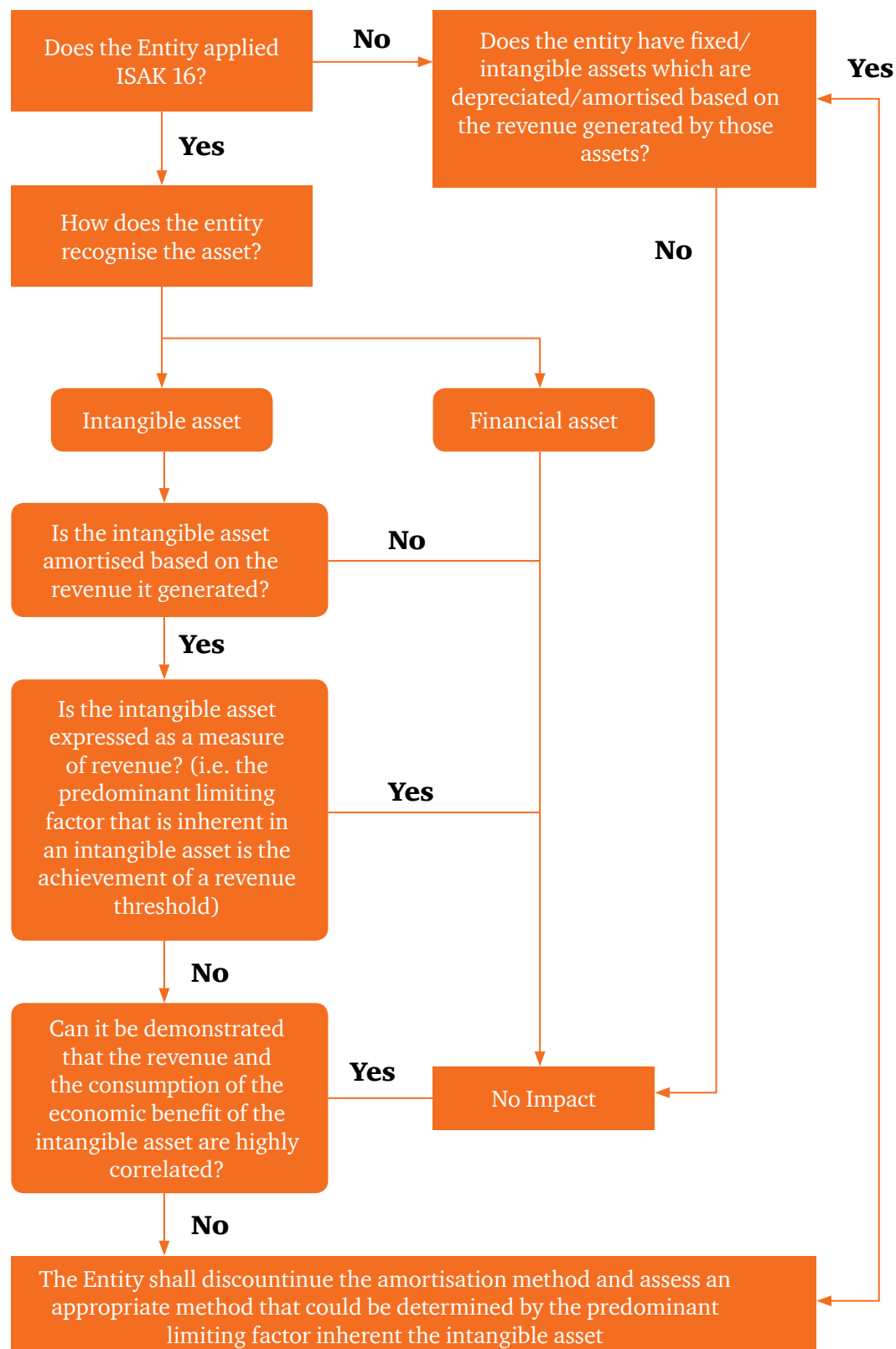
Amendments to PSAK 4 – Equity Method in Separate Financial Statements



**Amendments to PSAK 15, PSAK 65 and PSAK 67 – Investment entities:
Applying the consolidation exception**



Amendments to PSAK 16 and PSAK 19 – Clarification of accepted depreciation and amortisation methods



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PwC Indonesia

Plaza 89

Jl. H.R. Rasuna Said Kav. X-7 No.6

Jakarta 12940 - Indonesia

T: +62 21 5212901,

F: +62 21 5290 5555/52905050

www.pwc.com/id

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