A Practical Guide to the New and Revised Indonesian Financial Accounting Standards for 2018
This publication is a practical guide to the new, revised and amended Indonesian Financial Accounting Standards ("IFAS"), which come into effect in 2018. In order to further align IFAS with global standards, the Indonesian Financial Accounting Standards Board ("DSAK-IAI") has revised several existing standards through standard amendments and annual improvement projects. As a result, by 2018 IFAS will be substantially converged with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") up to 2017.

DSAK-IAI has finally issued the new standard PSAK 69, ‘Agriculture’, which is the adoption of its IFRS equivalent, IAS 41, ‘Agriculture.’ IAS 41 was only adopted by DSAK-IAI when the bearer plant accounting was excluded from the standard and is covered by PSAK 16, ‘Property, plant and equipment’.


Several minor revisions and clarifications were also issued by the DSAK-IAI through annual improvements. The adoption of those improvements is also a part of the IFRS convergence project.

Also included in this practical guide is our brief guidance on forthcoming standards (see Appendix). DSAK-IAI has issued new interpretations and several amendments, which will become effective in 2019 and 2020.

Lastly, it is worth noting that four major standards have been issued – IFRS 9, ‘Financial instruments’, IFRS 15, ‘Revenue from contracts with customers’, IFRS 16 ‘Leases’ and IFRS 17 ‘Insurance Contract’. DSAK-IAI has adopted the equivalent standards of IFRS 9, IFRS 15, and IFRS 16 through PSAK 71, 72, and 73, respectively. It is clear that the intention of the Indonesian standard setters is to reach international convergence. Thus, we can expect that IFRS 17 will also be adopted locally in the near future. We will keep you posted!
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**New Standard**

**PSAK 69, ‘Agriculture’**

Early adoption is permitted

Transition Provision: Retrospective

PSAK 69 is an adoption of the IAS 41, ‘Agriculture’ (revised 2014). Except for bearer plants, which are in the scope of PSAK 16, all agricultural activity is in the scope of PSAK 69. The principle of the standard is that increases in value are recognised as income as the asset grows and develops.

**Issue**

*What is its scope?*

PSAK 69 applies to agricultural activity which relates to biological assets, agricultural produce and government grants. Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce, or into additional biological assets.

A biological asset is a living animal or plant. Produce growing on bearer plants is a biological asset. Once harvested, agricultural produce becomes inventory and is accounted for in accordance with PSAK 14, ‘Inventory’.

*When is a biological asset or agricultural produce recognised?*

PSAK 69 requires an entity to recognise a biological asset when:

a. The entity controls the asset as a result of past events;

b. It is probable that future economic benefits associated with the asset will flow to the entity; and

c. The fair value or cost of the asset can be measured reliably.

*How should biological assets measured?*

PSAK 69 requires biological assets to be measured on initial recognition and at each balance sheet date at their fair value less costs to sell, except in limited circumstances. Any movements in fair value are recorded in the income statement.

*How should agricultural produce measured?*

Harvested produce is measured at fair value less costs to sell at the point of harvest. PSAK 69 states that the fair value of produce at the point of harvest can always be measured reliably; hence there is no possibility of exemption from fair value measurement at the point of harvest. The fair value less costs to sell of the harvested produce is the deemed cost of the inventories on the date when PSAK 14 is applied.

**Impact**

Fair valuation is prevalent that entities need to consider how the fair values are determined. There are three approaches described in PSAK 68, ‘Fair value measurement’, to measure fair value: the market approach; the income approach; and the cost approach.

The market and income approaches are the most likely methods used to measure biological assets. PSAK 68 does not have a preferred method of calculating fair value however whichever technique is used observable inputs must be maximised. If there is a market price, it cannot be ignored.

A cash flow model is the most likely valuation method for bearer produce. The cash flow model should include all directly attributable cash inflows and outflows. The inflows will be the price in the market of the harvested produce. The outflows will be those incurred in growing the asset and getting it to market, (for example, direct labour, fertiliser and transport to market). Contributory asset charges will be included for both the land and bearer plant if they are owned by the entity. This ‘notional’ rent removes cash flows attributable to those assets so the remaining value relates solely to the produce. As such, on day one after the previous harvest, the next harvest is likely to have a fair value close to zero.
Amended Standard

Disclosure Initiative

Amendments to PSAK 2, ‘Statement of cash flows’
Early adoption is permitted
Transition Provision: Prospective

**Issue**

These amendments in PSAK 2 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

**Impact**

**What is the additional disclosure?**

An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- cash flows, such as drawdowns and repayments of borrowings;
- non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

**What items should an entity include in the additional disclosure?**

**Is the disclosure limited to debt?**

No. Debt is not defined or required to be disclosed by current IFAS, so it is decided to require disclosure of changes in liabilities for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows.

**Should an entity include financial assets in the disclosure if those assets are used to manage its financing activities?**

Yes. An entity should include changes in financial assets (for example, assets that hedge liabilities arising from financing liabilities) in the new disclosures if such cash flows were, or will be, included in cash flows from financing activities.

**Can an entity include changes in other items as part of the disclosures?**

Yes. Changes in other items should be included where an entity considers that such disclosures would meet the objective of the disclosure requirement above. For example, an entity might consider including changes in cash and cash equivalents, pension liabilities and interest payments that are classified as operating activities in the statement of cash flows, etc. However, the amendment requires such disclosure to be separate from the disclosure of changes in liabilities arising from financing activities.

**Is a specific disclosure format required?**

No. The amendment suggests that a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities would meet the disclosure requirement, but a specific format is not mandated.

However, where a reconciliation is used, the disclosure should provide sufficient information to link items included in the reconciliation to the balance sheet and statement of cash flows.

**Transition**

When an entity first applies the amendment, it is not required to provide comparative information in respect of the preceding periods.

**Insight**

The amendment responds to requests from investors for information that helps them better understand changes in an entity’s debt. The amendment will affect every entity preparing IFAS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.
Amended Standard

Transfers of investment property

Amendments to PSAK 13, ‘Investment property’
Early adoption is permitted
Transition Provision: Prospective

Issue
These amendments clarify when assets are transferred to, or from, investment properties.

Impact
The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use, there should be an assessment of whether the property meets the definition of the investment property. This change must be supported by evidence. It is confirmed that a change in intention, in isolation, is not enough to support a transfer.

The issue arose from confusion over whether an entity transfers property under development from inventory to investment property when there is evidence of a change in use that was not explicitly included in the standard. The list of evidence was therefore re-characterised as a non-exhaustive list of examples to help illustrate the principle. The examples were expanded to include assets under construction and development and not only the transfer of completed properties.

Transition
There are two options for transition.
1. Prospective application
   Any impact from properties that are reclassified would be treated as an adjustment to opening retained earnings as at the date of initial application. There are also special disclosure requirements if this option is selected.
2. Retrospective application
   This option can only be selected without the use of hindsight.
Agriculture: Bearer plants

Amendments to PSAK 16, ‘Property, plant, and equipment’
Early adoption is permitted
Transition Provision: Retrospective

Issue
With the adoption of IAS 41 through the new PSAK 69 beginning 1 January 2018, bearer plants are treated as fixed assets and are accounted for differently to all other biological assets. The amendments distinguish bearer plants from other biological assets, as bearer plants are solely used to grow produce over their productive lives. Bearer plants are seen as similar to an item of machinery in a manufacturing process and therefore will be classified as PP&E and accounted for under PSAK 16.

Impact

Accounting for bearer plants
A bearer plant is a living plant that:
• is used in the production or supply of agricultural produce;
• is expected to bear produce for more than one period; and
• has a remote likelihood of being sold as agricultural revenue from contracts with customers.

Biological assets that meet the definition of ‘bearer plants’ are measured either at cost or revalued amounts, less accumulated depreciation and impairment losses. Bearer plants are measured at accumulated costs until maturity, similar to the accounting for a self-constructed item of property, plant and equipment.

Accounting for produce growing on bearer plants
Agricultural produce growing on bearer plants that are within the scope of PSAK 69 are measured at fair value less costs to sell with changes recognised in profit or loss as the produce grows.

Insight
Management should assess if their biological assets meet the definition of bearer plants in the amendments. The classification as bearer plants or other biological assets is critical as it drives the subsequent measurement model. For those assets which meet the definition of bearer plants, management will need to ensure that their systems are able to capture the costs incurred and consider their policy for determining when these assets mature.
Amended Standard

Recognition of deferred tax assets for unrealised losses

Amendments to PSAK 46, ‘Income taxes’
Early adoption is permitted
Transition Provision: Retrospective

Issue
These amendments clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. They also clarify certain other aspects of accounting for deferred tax assets.

Impact
What is the additional guidance?
Is there any temporary difference when an asset is measured at fair value and that fair value is less than its tax base?
Yes. A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.

Can an entity assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit?
Yes. Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit. For example, an entity should assume that an available-for-sale debt investment will be recovered for more than its carrying value when that outcome is probable even if carrying value below its tax base (original investment cost).

Is the recoverability of deferred tax assets considered separately or collectively?
It depends on the tax law. Deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

How do deferred tax assets affect future taxable profit?
The tax deduction resulting from the reversal of deferred tax assets is excluded from estimated future taxable profit used to evaluate the recoverability of those assets.

Transition
An entity may, on initial application of this amendment, elect to recognise any change in the opening equity of the earliest comparative period presented in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change across different equity components.

Insight
The amendments clarify the existing guidance under PSAK 46. They do not change the underlying principles for the recognition of deferred tax assets. The amendments arose from a question about the deferred tax accounting on debt investments measured at fair value, however, the amendments are not limited to any specific type or class of assets, and they clarify several of the general principles underlying the accounting for deferred tax assets.
Classification and measurement of share-based payment transactions

Amendments to PSAK 53, ‘Share-based payments’
Early adoption is permitted
Transition Provision: Prospective or Retrospective

Issue
This amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a ‘net settlement’ feature in respect of withholding taxes.

Impact
The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in PSAK 53 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

Measurement of cash-settled awards
Under PSAK 53, the measurement basis for an equity-settled, share-based payment should not be ‘fair value’ in accordance with PSAK 68. However, ‘fair value’ was not defined in connection with a cash settled, share-based payment, and there has been diversity in practice. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the ‘fair value’, but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest. This change has the most impact where an award vests (or does not vest) based on a non-market condition. Previously, some argued that the fair value of a cash-settled award was determined using the guidance in PSAK 68 and reflected the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

Modification of cash-settled awards
PSAK 53 includes guidance on how to account for a modification that adds a cash alternative to an equity-settled award, but it did not include guidance on how to account for a modification from cash-settled to equity-settled. A modification to a cash-settled award is reflected immediately in the measurement of fair value. Any incremental value added to an equity-settled award is recognised over any remaining vesting period, and any reduction in value is ignored. The amendment addresses the accounting for a modification that changes both the value and the classification of a cash-settled award and, in particular, clarifies the order in which the changes are applied. The amendment requires any change in value to be dealt with before the change in classification. The cash-settled award is remeasured, with any difference recognised in the income statement before the remeasured liability is reclassified into equity.

Awards with net settlement features
Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment award, and to remit the tax payable on the award to the tax authority. The amendments note that PSAK 53 would require such an award to be split into a cash-settled component for the tax payment and an equity-settled component for the net shares issued to the employee. However the amendment adds an exception that requires the award to be treated as equity-settled in its entirety.
The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee’s tax obligation associated with the share-based payment. The cash payment to the tax authority might be much greater than the expense that has been recognised for the share-based payment. The amendment says that the entity should disclose an estimate of the amount that it expects to pay to the tax authority in respect of the withholding tax obligation where that is necessary to inform users about the future cash flows.

**Transition**

The transition provisions, in effect, specify that the amendments apply to awards that are not settled as at the date of first application or to modifications that happen after the date of first application, without restatement of prior periods. There is no income statement impact as a result of any reclassification from liability to equity in respect of ‘net settled awards’; the recognised liability is reclassified to equity without any adjustment.

The amendments can be applied retrospectively, provided that this is possible without hindsight and that the retrospective treatment is applied to all of the amendments.

**Insight**

Entities that have employee share-based payments will need to consider whether or not these changes will affect their accounting. In particular, entities with the following arrangements are likely to be affected:

- Cash-settled share-based payments that include performance conditions;
- Equity-settled awards that include net settlement features relating to tax obligations; and
- Cash-settled arrangements that are modified to equity-settled share-based payments.

### Annual Improvements 2017

As part of the continuing IFRS convergence process, the following table provides summary information on the annual improvements of PSAKs that are effective on 1 January 2018. The annual improvements of PSAK are basically a set of narrow-scope amendments that provide clarification so that there are no significant changes to existing principles or new principles.

<table>
<thead>
<tr>
<th>Title</th>
<th>Key Requirements</th>
</tr>
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<tbody>
<tr>
<td>PSAK 15, ‘Investments in Associates and Joint Ventures’</td>
<td>This allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). It was clarified that this election should be made separately for each associate or joint venture at initial recognition.</td>
</tr>
<tr>
<td>PSAK 67, ‘Disclosure of Interests in Other Entities’</td>
<td>The disclosure in this standard is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of PSAK 67). Previously, it was unclear whether all other PSAK 67 requirements were applicable for these interests. The objective of PSAK 67 was to provide information about the nature of interests in other entities, risks associated with these interests, and the effect of these interests on financial statements. It was noted that this objective is relevant to interests in other entities regardless of whether they are classified as held for sale.</td>
</tr>
</tbody>
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## Appendix A - Forthcoming Requirements

<table>
<thead>
<tr>
<th>Title</th>
<th>Key Requirements</th>
<th>Effective date</th>
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<tbody>
<tr>
<td>ISAK 33, ‘Foreign currency transactions and advance consideration’</td>
<td>ISAK 33 is an adoption of IFRIC 22, ‘Foreign Currency Transactions and Advance Consideration’ under IFRS. It clarifies the use of the date of the transaction in determining the exchange rate to be used for initial recognition of asset, expense or income when the entity receives or pays advance consideration in foreign currency.</td>
<td>1 January 2019. Early adoption is permitted.</td>
</tr>
<tr>
<td>ISAK 34, ‘Uncertainty over Income Tax Treatments’</td>
<td>ISAK 34 is an adoption of IFRIC 23, ‘Uncertainty over Income Tax Treatments’ under IFRS. ISAK 34 is an interpretation of PSAK 46 that clarifies the application of PSAK 46 where uncertainty over income taxes exists.</td>
<td>1 January 2019 Early adoption is permitted.</td>
</tr>
<tr>
<td>PSAK 71, ‘Financial Instruments’</td>
<td>This new standard provides new requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the incurred loss impairment model used currently and also new requirements for hedge accounting. Consequential amendments to other standards, including PSAK 55, ‘Financial Instruments’ are made.</td>
<td>1 January 2020 Early adoption is permitted.</td>
</tr>
<tr>
<td>PSAK 72 ‘Revenue from contract with Customers’</td>
<td>This new standard will affect most entities from all across industries. The standard introduces the new paradigm to the revenue recognition accounting by introducing the 5-step model. This standard replaces several revenue standards in IFAS.</td>
<td>1 January 2020 Early adoption is permitted.</td>
</tr>
<tr>
<td>PSAK 73, ‘Leases’</td>
<td>This new standard will require lessees to recognise a lease liability reflecting its future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. However, optional exemptions for certain short-term leases and low-value assets are available for lessees. This standard replaces the current guidance in PSAK 30, ‘Leases’.</td>
<td>1 January 2020 Early adoption is permitted.</td>
</tr>
<tr>
<td>Prepayment features with negative compensation Amendment to PSAK 71</td>
<td>The amendment allows companies to measure particular pre-payable financial assets with so-called negative compensation payments at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss.</td>
<td>1 January 2020 Early adoption is permitted.</td>
</tr>
<tr>
<td>Applying PSAK 71 ‘Financial Instruments’ to PSAK 62 ‘Insurance Contract’ Amendment to PSAK 62 ‘Insurance Contract’</td>
<td>This amendment is a consequential amendment due to the issuance of PSAK 71. The amended standard provides guidance for an entity who is issuing an insurance contract (especially an insurance company) on how to implement PSAK 71. There would be two approaches that can be chosen by the reporting entity, which are the deferral and overlay approaches.</td>
<td>1 January 2020 Early adoption is permitted.</td>
</tr>
<tr>
<td>Long-term interests in associates and joint ventures Amendments to PSAK 15</td>
<td>The amendment to PSAK 15 clarifies that companies account for long-term interests in an associate or joint venture (to which the equity method is not applied) using PSAK 71.</td>
<td>1 January 2020 Early adoption is permitted.</td>
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