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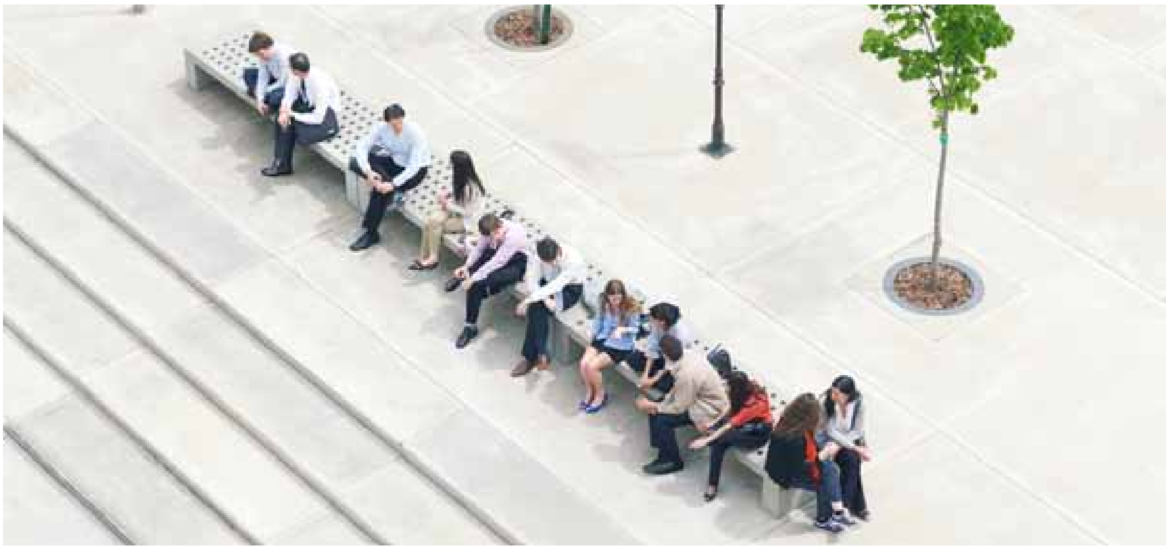
A Practical Guide to New IFAS for 2013



Background

Indonesian Financial Accounting Standards (IFAS) have gone through a significant transformation in the last two years. More than fifty accounting standards were revised to align IFAS with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) as at 1 January 2009. This year, the Accounting Standards Board of the Indonesian Institute of Accountants (DSAK-IAI) has chosen to focus on only a few revisions to the existing literature. Two accounting standards have been revised while one withdrawal has been introduced. In addition, Bapepam-LK[1] introduced a new standard for quasi-reorganisation. This publication offers a practical guide to the revised IFAS that come into effect in 2013.

Revision to SFAS 38, 'Business Combination of Entities Under Common Control'

On September 2012 DSAK-IAI issued a revision to SFAS 38 (revised 2004) "Restructuring of Entities under Common Control". The revised standard is now called "Business Combination of Entities under Common Control". Only business combination transaction between entities under common control would be accounted for using SFAS 38 (revised 2012). The difference between the transfer price paid and carrying value of net assets acquired will now be presented as part of the acquirer's *Additional Paid in Capital* account in equity; furthermore, there is no longer any requirement to recycle such equity balance to profit or loss in the future.

1 Bapepam-LK was legally merged into Otoriasasi Jasa Keuangan (OJK) in late 2012. For the purpose of this publication, we are still using the term Bapepam-LK because the legal documents pertaining to financial reporting requirements were published under the legal authority of Bapepam-LK.

A narrower scope

Only business combination transactions would be accounted for using SFAS 38 (revised 2012). DSAK-IAI observed that the previous version of SFAS 38 (revised 2004) was often taken out of context when it was casually applied to all types of transactions between entities under common control. The revised standard makes reference to SFAS 22, 'Business Combination', in determining what constitutes a business.

It is therefore necessary for the reporting entity to determine whether the transaction's substance is really the combination of a business or simply the transfer of assets or liabilities between entities under common control. For a transaction to meet the definition of a business combination, the integrated set of assets and activities that an entity gains control of must be more than a collection of assets or a combination of assets and liabilities. This means that the assets or combination of assets and liabilities of the acquired entity interact with each other and, importantly, with the people who operate the assets as a business.
Determining whether a business has been combined may not be easy and in some cases will require judgement. For further guidance, please refer to PwC Manual of Accounting chapter 25, 'Business combination'.

Measurement

There is no change to the measurement under SFAS 38 (revised 2012) compared to SFAS 38 (revised 2004). The predecessor accounting approach continues to be used. In principle, assets and liabilities are not restated to fair value; instead, the acquirer continues to assume the predecessor's (the disposing entity's) carrying value of those assets and liabilities. The difference between transfer price and predecessor's carrying value is recognised in equity.

Presentation

SFAS 38 (revised 2012) retains the pooling of interest method used in SFAS 38 (revised 2004). That is, the acquirer should incorporate the financial position and all results of operations of the acquired entity as if both entities (acquirer and acquiree) had always been combined. A restatement of prior period results is necessary.

SFAS 38 (revised 2012) clarifies that pooling of interest should only be applied starting from the beginning of the period in the year the two entities (acquirer and acquiree) first came under common ownership. Furthermore, the difference between transfer price and predecessor's carrying value, which was colloquially referred to as *Difference in Value Arising from Restructuring Transactions of Entities under Common Control* (SNTRES) in the past, is now presented as part of the *Additional Paid in Capital* account in equity.

Push down accounting approach is not adopted

When a subsidiary was previously acquired from a third party outside of the group in an arm's length transaction, fair value adjustments were applied to assets and liabilities acquired and goodwill might be recognised as part of the acquisition in accordance with SFAS 22. Subsequently, this acquired subsidiary could be combined with another entity within the group. This latter transaction involving the combination of two entities under common control of the group generally falls within the scope of SFAS 38 (revised 2012).

Questions had been asked whether the push down accounting concept should be applied. That is whether the fair value adjustments and goodwill initially recognised as part of the acquisition from a third party should be *pushed down* to the subsidiary when we determine the carrying values of assets and liabilities transferred.

DSAK-IAI considered the technical merit of push down accounting but the board finally decided not to adopt such an approach, mainly due to impracticability concerns [SFAS 38 (revised 2012) BC19-23]. It is common to have fair value adjustments and goodwill recognised by the ultimate parent of the group that resides overseas. DSAK-IAI considered the concerns raised by market participants that to obtain such information could be uneconomical and impractical at times. Therefore, to ensure consistency in practice, SFAS 38 (revised 2012) only requires the acquirer to measure the carrying values of the assets and liabilities of the acquiree as they are currently recorded by the acquiree.

The value of transaction recognised in equity will not be recycled to profit or loss

Unlike SFAS 38 (revised 2004), the revised SFAS 38 does not allow recycling of the equity balance that arises from the difference between the transfer price and carrying value of net assets acquired (i.e. SNTRES) to profit or loss. This is true even when the acquirer later sells the business to a third party outside of the group. This new approach should be seen as a relief for most reporting entities as one of the main criticisms addressed at SFAS 38 (revised 2004) was the difficulty in quantifying the amount that needs to be recycled.

Therefore, the difference between the transfer price and carrying values of net assets acquired (i.e. SNTRES) will always remain as part of the acquirer's Additional Paid in Capital [SFAS 38 (revised 2012) BC12].

Disposing entity

The entity that disposes of (transfers) its business to another entity under common control should also record the difference between the transfer price received and carrying value of net assets transferred in equity.

However, in contrast to the acquirer that has to apply the pooling of interest method of accounting, the disposing entity does not need a reciprocal approach. That is, the disposing entity does not need to restate prior year balances to show as if the net assets had been de-pooled.

Transitional provision

The revised standard is applicable prospectively starting 1 January 2013. On the date of initial application of this PSAK, the remaining balance of SNTRES shall be reclassified to the *Additional Paid-in Capital* account in equity.

Revision to SFAS 60, 'Financial Instruments: Disclosures'

In December 2012, DSAK-IAI issued a revision to SFAS 60. Some improvements to the standard have been made, so that it is now comparable with IFRS 7 version March 2009.

The revised SFAS 60 is effective for the financial reporting period starting 1 January 2013; however, early adoption is permitted.

The improvements mainly relate to the disclosure of financial assets, including the removal of the requirement to disclose:
(i) the fair value of collateral held as security; and
(ii) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

The alleviation from disclosing the fair value of collateral held as security is certainly significant for many reporting entities in the financial services industry. In particular, banks and financing companies typically hold a great amount of collateral as part of their loan portfolio. Unless the collateral has been repossessed and recorded on the balance sheet, the reporting entity does not need to go through the exercise of estimating the fair value for disclosure purposes.

We expect minimal impact for other entities outside of the financial services industry.


Withdrawal of SFAS 51 (revised 2003), 'Accounting for Quasi-reorganisation'

DSAK-IAI has withdrawn SFAS 51 (revised 2003) due to its conflicting principles with other SFAS. The accounting model used in SFAS 51 (revised 2003) is considered not to be in compliance with the spirit of the *"fair value accounting"* concept used by IFAS in general. Hence, the accounting for quasi-reorganisation is no longer allowed effective for the financial period that begins on 1 January 2013.

However, Bapepam-LK has introduced a limited exemption to apply a new quasi-reorganisation model for publicly listed entities in Indonesia. Guidance is provided below.

Bapepam-LK's regulation IX.L.1, 'Quasi-reorganisation'

Given the withdrawal of SFAS 51 (revised 2003), Bapepam-LK introduces a new model for quasi-reorganisation that can only be applied by publicly listed entities in Indonesia. However, this new model is significantly different from the one found in SFAS 51 (revised 2003). Bapepam-LK's regulation X.L.1 does not allow the revaluation of net assets to fair value prior to reorganisation; instead, the historical cost concept is maintained. There will be a reclassification adjustment from other equity accounts to eliminate the retained deficit balance. The objective of this new model is to have a 'fresh start' of retained deficit starting back from zero.

Only a publicly listed entity that has incurred significant losses for the last three years can perform quasi-reorganisation. In addition, there is a quantitative threshold test and a number of regulatory steps that need to be undertaken before an entity can apply Bapepam-LK's quasi-reorganisation accounting.

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