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# *A Practical Guide to the New Accounting Standards for 2014*


## *Background*

This publication is a practical guide to the new Indonesian financial accounting standards that come into effect in 2014. There are a few changes to the financial accounting standards this year after the completion of substantial convergence with the IFRS in 2011 and 2012. DSAK-IAI is simply introducing three interpretations of the financial accounting standards, which are commonly known as ISAKs, for 2014. All three interpretations are based on IFRIC 18, 19, and 20 of the IFRS.

Not all three interpretations are expected to have an impact on every industry; nevertheless, a careful assessment to identify the implications of the new standards is necessary.

### *Glossary*

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| DSAK – IAI | = | *Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia* (Accounting Standards Board of Indonesian Accountant Institute) |
| IAS | = | International Accounting Standards |
| IASB | = | International Accounting Standards Board |
| IFAS | = | Indonesia Financial Accounting Standards |
| IFRIC | = | IFRS Interpretation Committee. The term of IFRIC is used to identify interpretation of IFRS/IAS issued by the Committee |
| IFRS | = | International Financial Reporting Standards |
| ISAK | = | *Intepretasi Standar Akuntansi Keuangan* (Intepretation of IFAS) |
| SFAS | = | Statement of Financial Accounting Standards |

## *ISAK 27 – 'Transfer of Assets from Customer'*

### *Effective date*

The guidance applies prospectively to all transfers of assets from customers arising on or after 1 January 2014. Early adoption is not permitted.

This interpretation is based on IFRIC 18, 'Transfer of Assets from Customer'.

### What is the issue?

The standard addresses the diversity in practice that has arisen when entities account for assets transferred from a customer in return for connection to a network or ongoing access to goods or services, or both. Historically some entities have recognized the asset received at its fair value; others at its acquisition cost of nil, or a nominal amount. Entities that recognized the asset at fair value either recognized the related income immediately or over a longer period.

### What transactions are within the scope of ISAK 27?

ISAK 27 applies to agreements for the transfer of property, plant and equipment  from a customer that is to be used to connect the customer to a network or provide the customer with an ongoing supply of goods or services. The guidance also applies where a customer transfers cash to an entity and that cash is to be used to build an asset that connects the customer to a network.

It does not apply to government grants within the scope of SFAS 61, 'Accounting for Government Grants and Disclosure of Government Assistance', or service concessions within the scope of ISAK 16, 'Service Concession Arrangements'. It also does not apply to situations where an entity does not control the transferred asset. In these situations ISAK 8, 'Determining whether an Arrangement contains a Lease', and SFAS 30, 'Leases', may apply.

### What does the interpretation address?

ISAK 27 addresses the following issues:

- Does the transferred item fulfil the definition of an asset?
- How should the transferred item of property, plant and equipment be measured on initial recognition?
- If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a transfer of cash from its customer?

### What will ISAK 27 change?

The transferred assets will be recognized initially at fair value; the related revenue will be recognized immediately or, if there is a future service obligation, over the relevant service period. This may be a significant change for some entities, particularly those that have historically recognized these assets at their acquisition cost of nil or at a nominal amount.

To determine when revenue should be recognized, the entity receiving the asset should determine whether the asset has been received in exchange for one or more separately identifiable services. These services include: the connection to the network, ongoing access to the network and/or the supply of goods or services through the network. ISAK 27 also provides guidance for the separation and recognition of the different components of a transaction.

### Am I affected?

The impact of the guidance may be broader than just the utility and IT outsourcing situations referred to in the examples in the interpretation. Entities in other network industries and other outsourcing entities should also consider whether their accounting is affected by ISAK 27 for similar transfers of assets.

## *ISAK 28 – 'Extinguishing Financial Liabilities with Equity Instruments'*

**Effective date**

Annual periods beginning on or after 1 January 2014. Early adoption is not permitted. The interpretation should be applied retrospectively from the beginning of the earliest comparative period presented.

The interpretation is based on IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' or, as it is commonly known, a debt to equity swap transaction.

### What is the issue?

Some entities were compelled to renegotiate their debt as it became due because of the challenging financial conditions. Renegotiations would commonly lead either to modification of debt or settlement of the liability by way of issuing equity instruments to the lender. Our accounting literature did not address accounting for such debt for equity swaps before ISAK 28, and there was diversity in practice. Some recognized the equity instrument at the carrying amount of the financial liability and did not recognize any gain or loss on settlement in profit or loss. Others recognized the equity instruments at their fair value and recorded any difference between that amount and the carrying amount of the financial liability in profit or loss.

### What kinds of transactions are within the scope of ISAK 28?

ISAK 28 addresses the accounting by an entity that renegotiates the terms of a financial liability and issues shares to the creditor to extinguish all or part of the financial liability. It does not address the accounting by the creditor; and it does not apply to situations where the liability may be extinguished with equity instruments in accordance with the original terms of the instrument (for example, convertible bonds). The interpretation is further restricted to exclude transactions where the creditor is also a shareholder acting in its capacity as such, or transactions under common control where the transaction in substance represents an equity distribution by, or contribution to, the entity.

### What does the interpretation address?

ISAK 28 addresses the following issues:

- Is there 'consideration paid' when equity instruments are issued to extinguish a financial liability in lieu of a cash payment?
- How should an entity initially measure equity instruments issued to extinguish such a financial liability?
- How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

### What does the interpretation require?

ISAK 28 considers that equity instruments issued to settle a liability represent 'consideration paid'. It therefore requires a gain or loss to be recognized in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. This is consistent with the general approach to derecognition of financial liabilities established by SFAS 55, 'Financial Instrument: Recognition and Measurement'.

The amount of the gain or loss recognized in profit or loss is determined as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured, the fair value of the existing financial liability is used to measure the gain or loss and to record issued equity instruments.

### What will ISAK 28 change?

Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognized in profit or loss). The amount of the gain or loss should be separately disclosed in the statement of comprehensive income or in the notes.

### Am I affected?

All entities that enter into debt for equity swap transactions with an unrelated third party creditor (in full or partial settlement of a financial liability) are affected by ISAK 28.

## *ISAK 29 – ‘Stripping Cost in the Production Phase of a Surface Mine’*

**Effective date**

Annual periods beginning on or after 1 January 2014. Early adoption is not permitted. The interpretation should be applied retrospectively from the beginning of the earliest comparative period presented.

The interpretation is based on IFRIC 20 ‘Stripping Cost in the Production Phase of a Surface Mine’ as of 1 January 2013.

### What is the issue?

ISAK 29 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping costs incurred once a mine is in production often provide benefits for current production and access to future production. The challenge has always been how to allocate the benefits and then determine what the period costs are versus an asset that will benefit future periods. The interpretation was developed to address current diversity in practice. Some entities have judged all stripping costs as a cost of production while other entities capitalize some or all of the stripping costs as an asset.

### What is the scope of the new guidance?

ISAK 29 applies only to stripping costs that are incurred in surface mining activities during the production phase of the mine. It does not address underground mining activities.

### What does the interpretation require?

The interpretation may require mining entities to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The interpretation may also require entities that presently allocate their stripping costs as a production cost to revisit their approach and capitalize a portion of their costs.

The transition requirements of the interpretation may have a significant impact on a mining entity that has been using an average life of mine ratio to record deferred stripping asset. Existing asset balances that cannot be attributed to an identifiable component of the ore body will need to be written off to opening retained earnings.

### Am I affected?

All surface mining entities will be affected by the interpretation.


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