A Practical Guide to the New and Revised Indonesian Financial Accounting Standards for 2019

June 2019

pwc

Table of Contents

Introduction

This publication is a practical guide to the new, revised and amended Indonesian Financial Accounting Standards ("IFAS"), which come into effect in 2019. This gives an overview of the impact of the changes, which may be significant for some entities, helping companies understand if they will be affected and to begin their considerations. It will help entities plan more effectively by flagging up where new processes and systems or more guidance may be needed.

In order to further align IFAS with the International Financial Reporting Standards ("IFRS"), the Indonesian Financial Accounting Standards Board ("DSAK-IAI") has issued two new interpretations - ISAK 33, 'Foreign Currency Transactions and Advance Consideration' and ISAK 34, 'Uncertainty over Income Tax Treatments'. These are the adoption of their respective IFRIC equivalents - IFRIC 22, 'Foreign Currency Transactions and Advance Consideration' and IFRIC 23, 'Uncertainty over Income Tax Treatments'.

Apart from the adoption of the new IFRIC interpretations, DSAK-IAI has also revised several existing accounting standards through amendments and annual improvement projects. Accordingly, DSAK-IAI published the amendments to PSAK 24, 'Employee benefits', which relate to accounting for changes in the terms or the membership of a defined benefit plan. DSAK-IAI also issued several revisions and clarifications to existing standards through annual improvements. These are minor amendments affecting PSAK 22, 'Business Combinations', PSAK 26, 'Borrowing Costs', PSAK 46, 'Income Taxes' and PSAK 66, 'Joint Arrangements'. The adoption of the above amendment to PSAK 24 and annual improvements is a part of the overall IFRS convergence project. As a result, by 2019 IFAS will be substantially converged with the IFRS issued by the International Accounting Standards Board ("IASB") up to 2018.

Included in this practical guide is our brief guidance on forthcoming requirements (see Appendix A). In addition to the most discussed three major new accounting standards (PSAK 71 'Financial Instruments', PSAK 72 'Revenue from Contracts with Customers' and PSAK 73 'Leases'), which apply to annual periods beginning on or after 1 January 2020, DSAK-IAI has issued several new standards and amendments, which will become effective in 2020 and 2021. Apart from the guidance published by DSAK-IAI, the Syariah Accounting Standards Boards ("DSAS-IAI") has issued a new accounting standard - PSAK 112, 'Wakaf Accounting' (or 'Accounting for Endowments'), which regulates the accounting for donations from the perspective of corporate donors and corporate recipients. This standard will be effective for financial years beginning on or after 1 January 2021.

Lastly, it is worth noting that a major change is expected in the insurance contract accounting. In May 2017, IASB issued IFRS 17, 'Insurance Contracts', which includes some fundamental differences to current practices adopted by insurers and will apply retrospectively. DSAK-IAI is presently in the process of adopting IFRS 17 in Indonesia through PSAK 74, 'Insurance Contracts'. We will keep you updated!

New Interpretations

ISAK 33 Foreign Currency Transactions and Advance Consideration

Early adoption is permitted
Transition provision: retrospective or prospective

Issues

This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, PSAK 10. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts.

The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. The issue arises because PSAK 10 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for recognition. The question therefore is whether the date of the transaction is the date when the asset, expense or income is initially recognised, or the earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

The Interpretation provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Key provisions

Single payment/receipt

The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related item, should be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration.

Example – Single upfront payment

Supplier enters into a contract with a customer on 1 January 20x1 and receives the full consideration of CU50 on this date. The goods are delivered and revenue is recognised on 31 March 20x1.
The Interpretation requires that:

- Supplier will recognise a non-monetary contract liability, translating CU50 at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which the goods are transferred to the customer). Supplier will derecognise the non-monetary contract liability. Revenue will be recognised at the same amount in functional currency, using the exchange rate at the date of the transaction, which is 1 January 20x1. In this case, the amount of revenue is the same as the amount of the non-monetary contract liability derecognised.

Multiple receipts/payments

The Interpretation states that, if there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.
The illustrative examples accompanying the Interpretation provide guidance on multiple receipts/payments when:

- revenue is recognised at a single point in time;
- services are purchased over a period of time; and
- revenue is recognised at multiple points in time.

Example – Revenue recognised at a single point in time with multiple payments

Supplier enters into a contract with a customer on 1 January 20x1 to deliver goods in exchange for total consideration of CU50 and receives an upfront payment of CU20 on this date. The goods are delivered and revenue is recognised on 31 March 20x1. CU30 is received on 1 April 20x1 in full and final settlement of the purchase consideration.

The Interpretation requires that:

- Supplier will recognise a non-monetary contract liability, translating CU20 at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which it transfers the goods to the customer).
- On 31 March 20x1, Supplier will:
  - derecognise the non-monetary contract liability of CU20 and recognise CU20 of revenue using the same exchange rate (that is, the exchange rate at 1 January 20x1); and
  - recognise revenue and a receivable for the remaining CU30, using the exchange rate on 31 March 20x1.
- The receivable of CU30 is a monetary item, so it should be translated using the closing rate until the receivable is settled.

Impact

This Interpretation will impact all entities that enter into foreign currency transactions for which consideration is paid or received in advance. The most significant impact is expected for entities that enter into long-term cross border/foreign currency contracts, with significant upfront payments. Such arrangements are common in the construction industry and will impact both the supplier and their customers (for example, shipping and airlines).

Effective date and transition

The amendment is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. Entities can choose to apply the Interpretation:

- retrospectively for each period presented;
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the Interpretation is first applied; or
- prospectively from the beginning of a prior reporting period presented as comparative information.

ISAK 34 Uncertainty over Income Tax Treatments

Early adoption is permitted
Transition provision: retrospective

Issue

This interpretation clarifies how the recognition and measurement requirements of PSAK 46 'Income taxes', are applied where there is uncertainty over income tax treatments.

Impact

When does the Interpretation apply?

ISAK 34 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. ISAK 34 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

What is the unit of account?

Each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The factors that an entity might consider to make this determination include:
1. how it prepares and supports the tax treatment; and
2. the approach that it expects the tax authority i.e. take during an examination.

What should an entity assume about the examination of tax treatments by taxation authorities?

An entity is required to assume that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. Detection risk is not considered in the recognition and measurement of uncertain tax treatments.

When should an entity account for any uncertain tax treatments?

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made (for example, by recognising an additional tax liability or applying a higher tax rate).

How is the effect of uncertainty recognised?

The entity should measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The most likely amount method might be appropriate if the possible outcomes are binary or are concentrated on one value. The expected value method might be appropriate if there is a range of possible outcomes that are neither binary nor concentrated on one value. Some uncertainties affect both current and deferred taxes (for example, an uncertainty over the year in which an expense is deductible). ISAK 34 requires consistent judgements and estimates to be applied to current and deferred taxes.

What about changes in circumstances?

The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. ISAK 34 states specifically that the absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

What about the disclosures?

There are no new disclosure requirements in ISAK 34. However, entities are reminded of the need to disclose, in accordance with PSAK 1, the judgements and estimates made in determining the uncertain tax treatment.

Effective date and transition

The Interpretation is effective for annual periods beginning on or after 1 January 2019. An entity can, on initial application, elect to apply this Interpretation either:
1. retrospectively applying PSAK 25, if possible without the use of hindsight; or
2. retrospectively, with the cumulative effect of initially applying the Interpretation recognised at the date of

initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

Insight

ISAK 34 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously PSAK 46 was silent. For example, the Interpretation specifies how to determine the unit of account and the recognition and measurement guidance to be applied to that unit. There is no specific guidance in PSAK 46, and entities today might be using different models to determine the unit of account and measure the consequences of tax uncertainties. The Interpretation also explains when to reconsider the accounting for a tax uncertainty, and it states specifically that the absence of comment from the tax authority is unlikely, in isolation, to trigger a reassessment.

Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in PSAK 46. These models might, in some circumstances, be inconsistent with ISAK 34 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

Amended Standards

Plan amendment, curtailment or settlement –

Amendments to PSAK 24, 'Employee Benefits'

Early adoption is permitted
Transition provision: prospective

Issue

This amendment requires an entity:

- to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Impact

Changes in the terms or membership of a defined benefit plan might result in a plan amendment or a curtailment or settlement. PSAK 24 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment.

Current service cost and net interest are usually calculated using assumptions determined at the beginning of the period. However, if the net defined benefit liability is remeasured to determine past service cost, or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period are remeasured using the same assumptions and the same fair value of plan assets. This will change the amounts that would otherwise have been charged to profit or loss in the period after the plan amendment, and it might mean that the net defined benefit liability is remeasured more often.

A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement, is calculated in accordance with PSAK 24, and it is recognised in profit or loss. This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.

Who is affected

The amendments will affect any entity that changes the terms or the membership of a defined benefit plan such that there is past service cost or a gain or loss on settlement.

The amendments are applied prospectively to plan amendments, settlements or curtailments that occur after the beginning of the first annual reporting period beginning on or after 1 January 2019.

Annual Improvements 2018

As part of the continuing IFRS convergence process, the following table provides summary information on the annual improvements of PSAKs that are effective for annual periods beginning on or after 1 January 2019. 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.

Title	Key Requirements
PSAK 22, 'Business Combination'	The amendments clarify that obtaining control of a business that is a joint operation, is a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.
PSAK 26, 'Borrowing Costs'	The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. This amendment applies prospectively for borrowing costs incurred on or after its effective date.
PSAK 46, 'Income Taxes'	The amendment clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous.
PSAK 66, 'Joint Arrangements'	The amendments clarify that the party obtaining joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

Appendix – Forthcoming Requirements

(as approved by DSAK-IAI or DSAS-IAI at the date of this publication)

Title	Key Requirements	Effective Date
PSAK 71, 'Financial Instruments'	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.	1 January 2020 Early adoption is permitted.
PSAK 72, 'Revenue from Contracts with Customers	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 five-step model. This standard replaces several revenue standards in IFAS.	1 January 2020 Early adoption is permitted.
PSAK 73, 'Leases'	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'.	1 January 2020 Early adoption is permitted.
Prepayment features with negative compensation Amendment to PSAK 71	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.	1 January 2020 Early adoption is permitted.
Applying PSAK 71 'Financial Instruments' to PSAK 62 'Insurance Contracts' Amendment to PSAK 62 'Insurance Contracts'	This amendment is a consequential revision to PSAK 62 due to the issuance of PSAK 71. The amended standard provides guidance for an entity that is issuing an insurance contract (especially an insurance company) on how to implement PSAK 71. There will be two approaches that could be chosen by the reporting entity, which are the temporary exemption from PSAK 71 and overlay approaches.	1 January 2020 Early adoption is permitted.
Long-term interest in associates and joint ventures Amendments to PSAK 15	The amendment to PSAK 15 clarifies that companies account for long-term interest in an associate or joint venture (to which the equity method is not applied) using PSAK 71.	1 January 2020 Early adoption is permitted.
PSAK 112, 'Accounting for *Wakaf* (Endowments)'	The standard regulates the accounting treatment for *wakaf* (endowments) from corporate donor to individual and corporate recipient.	1 January 2021 Early adoption is permitted.
Amendment to PSAK 1, 'Presentation of Financial Statements'	The amendment allows the entities to use titles for the statements other than those used in PSAK 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.	1 January 2020
Annual Improvements 2019 to PSAK 1, 'Presentation of Financial Statements'	This is clarifies some wording in the standard to align with the intention in IAS 1.	1 January 2020
ISAK 35, 'Presentation of Non-Profit Oriented Entity Financial Statements'	This interpretation provides an illustrative example of financial reporting by a non-profit oriented entity.	1 January 2020
PPSAK 13, Revocation of PSAK 45 Financial Reporting for Non-profit Organisations	This statement revokes the enactment of PSAK 45.	1 January 2020

Authors, contributors and reviewers

Djohan Pinnarwan
djohan.pinnarwan@id.pwc.com
Dwi Jayanti
Dwi.jayanti@id.pwc.com
Arryu Amin
Arryu.amin@id.pwc.com
Lie Yokebeth
lie.yokebeth@id.pwc.com
Helen Cuizon
Helen.cuizon@id.pwc.com
Dariya Karasova
Dariya.m.karasova@id.pwc.com
Gayatri Permatasari
gayatri.permatasari@id.pwc.com
Martinus Budiman
Martinus.budiman@id.pwc.com

For professional accounting advice, please contact:

Jumadi Anggana
Jumadi.anggana@id.pwc.com
Irwan Lau
Irwan.lau@id.pwc.com
Ponco Widagdo
Ponco.widagdo@id.pwc.com
Roymond Wong
Roymond.wong@id.pwc.com
Jasmin Maranan
jasmin.m.maranan@id.pwc.com
Akuntina Novriani
akuntina.novriani@id.pwc.com
Elina Mihardja
Elina.mihardja@id.pwc.com

PwC Indonesia

Jakarta
WTC 3
Jl. Jend. Sudirman Kav. 29-31
Jakarta 12920 - INDONESIA
T: +62 21 5212901
F: +62 21 52905555 / 52905050
www.pwc.com/id

Surabaya
Pakuwon Center
Tunjungan Plaza 5, 22nd Floor, Unit 05
Jl. Embong Malang No. 1, 3, 5
T: +62 31 9924579
Surabaya 60261 - INDONESIA
www.pwc.com/id