Accounting Technical Alert

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PSAK 118: Redefining financial performance reporting

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Background

On 28 May 2025, the Financial Accounting Standards Board (DSAK-IAI) issued PSAK 118: Presentation and Disclosure in Financial Statements, which essentially adopts the principles of IFRS 18, ensuring that the two standards are practically similar in all material respects. IFRS 18, issued by the International Accounting Standards Board (IASB), was developed in response to investor concerns about comparability and transparency in performance reporting across multiple industries.

PSAK 118 will replace PSAK 201: Presentation of Financial Statements, aligning Indonesian financial reporting standards with global standards, effective on 1 January 2027. The new PSAK 118 will need to be applied retrospectively. This requires entities to prepare the information required by the new standard as early as 1 January 2026, due to the need to present changes in comparative periods during the first year of adopting the new standard. For instance, entities are expected to present the effects of adopting PSAK 118 as of 31 December 2027, 31 December 2026 and 1 January 2026 in their 2027 financial statements. Entities planning to engage in capital market transactions, such as public equity or debt issuance, however, may be required to present additional comparative periods as mandated by the respective capital market regulators.

Key changes introduced by PSAK 118

The key new concepts introduced in PSAK 118 relate to the structure of the statement of profit or loss, the required disclosures in the financial statements for “management-defined performance measures”, and enhanced principles on aggregation and disaggregation. For example, while PSAK 118 does not introduce new recognition or measurement principles, it may alter what an entity reports as its “operating profit or loss.” This new standard will affect all companies across all industries by changing how they present and disclose financial performance.

Below we highlight a few notable new requirements introduced in PSAK 118 compared to the existing standard:

1. Structure of the statement of profit or loss

PSAK 118 introduces a defined structure for the statement of profit or loss. The objective is to reduce diversity in reporting, helping users of financial statements better understand the information presented and make more meaningful comparisons across companies. The new structure includes categories and required subtotals, as follows:

a) Required subtotals

PSAK 118 mandates the presentation of specific totals and subtotals. The most significant change is the required inclusion of "operating profit or loss." Other required subtotals include "profit or loss" and "profit or loss before financing and income taxes," with certain exceptions. For example, a bank whose main business activity is financing, and that has made specific presentation choices, may be exempt.

1) Illustrative statement of profit or loss for a general corporate:

Statement of profit or loss – general corporate (operating expenses by function)

Line item	CU	Category
Revenue	X	Operating
Cost of goods sold	(X)	
Gross profit	**X**	
Selling expenses	(X)	
General and administrative expenses	(X)	
Research and development expenses		
Operating profit	**X**	**Required subtotal**
Share of profit from associates and joint ventures accounted for using the equity method	X	Investing
Interest income from cash and cash equivalents	X	
Profit before financing and income tax	**X**	**Required subtotal**
Interest expense on borrowings	(X)	Financing
Interest expense on other liabilities	(X)	
Profit before income tax	**X**	
Income tax expense	(X)	Income tax
Profit from continuing operations	X	
Loss from discontinued operations	(X)	Discontinued operations
Profit from the year	**X**	**Required subtotal**

2) Illustrative statement of profit or loss for an investment and retail bank:

Statement of profit or loss – investment and retail bank

Line item	CU	Category
Interest revenue calculated using the effective interest rate method	X	Operating
Interest expense	(X)	
Net interest income	**X**	
Fee and commission income	X	
Fee and commission expenses	(X)	
Net fee and commission income	**X**	
Net trading income	X	
Net investment income, including cash and cash equivalents	X	
Credit impairment losses	(X)	
Employee benefits expenses	(X)	
Depreciation and amortisation expenses	(X)	
Operating profit	**X**	**Required subtotal**
Share of profit from associates and joint ventures	X	Non-main investing and financing
Interest expense on pension and lease liabilities	X	
Profit before income tax	**X**	
Income tax expense	(X)	Income tax
Profit from the year	**X**	**Required subtotal**

b) Categories

Items in the statement of profit or loss must be classified into one of five categories: operating, investing, financing, income taxes and discontinued operations. PSAK 118 provides general guidance to help entities classify items appropriately, as outlined below:

Investing category	Financing category	Operating category
This category typically includes: • results of associates and joint ventures; • results of cash and cash equivalent; and assets that generate a return individually and largely independent of other resources.	This category includes: • all income and expenses from liabilities that involve only the raising of finance (such as typical bank borrowings); and • interest expense and the effects of changes in interest rates from other liabilities (e.g. unwinding of the discount on a pension liability).	PSAK 118 does not define the operating category. It is the 'residual' category for income and expenses that are not classified in other categories. This typically includes the entity's results from its main business activities.

For entities such as banks, where investing in assets and providing financing to customers are both main business activities, the required categories are generally expected to reflect the following:

Operating category	Investing category	Financing category
Result from main business activities, including providing financing* and investing in assets (which includes income and expenses from cash and cash equivalents for entities that invest in financial assets as a main business activity).	• Results of associates and joint ventures accounted for applying the equity method. • Income and expenses relating to assets invested in that are not invested in as a main business activity.	• Income and expenses from liabilities that are not related to the entity providing financing to customers (depending on the policy choice*). • Interest expense on other liabilities (for example, unwinding of the discount on a pension liability).

*An entity that provides financing to customers as a main business activity can choose to classify income and expenses as operating for all liabilities that involve only the raising of finance, regardless of whether those liabilities relate to providing financing to customers

2. New disclosures requirements

a) Management-defined performance measures (MPMs)

Management may define its own performance measures, often referred to as "alternative performance measures" or "non-GAAP measures." PSAK 118 defines a subset of these as "management-defined performance measures" (MPMs). An MPM is a subtotal of income and expenses that:

- is used in public communications outside the financial statements;
- communicates an aspect of the financial performance of the entity as a whole; and
- is not specifically required by an IFRS Accounting Standard or is explicitly excluded from the scope of PSAK 118.

Not all financial ratios are MPMs, because not all ratios are derived from subtotals of income and expenses. However, if a subtotal of income and expenses is used as the numerator or denominator of a financial ratio, that subtotal may be considered an MPM.

b) Reconciliation of expenses by function and nature

Entities will present expenses in the operating category by nature, function or a combination of both. PSAK 118 includes guidance to help entities determine the most appropriate approach based on their specific facts and circumstances. When items are presented by function, entities must disclose information by nature for those specific expenses included in each line item in the operating category of the statement of profit or loss.

Below is an example of a reconciliation of expenses presented by function back to their respective nature:

(in thousands of CU)	20X2	20X1
Depreciation		
Cost of sales	X	X
Research and development expenses	X	X
General and administrative expenses	X	X
Total depreciation	**X**	**X**
Amortisation		
Research and development expenses	X	X
Total amortisation	**X**	**X**
Employee benefits		
Cost of sales	X	X
Selling expenses	X	X
Research and development expenses	X	X
General and administrative expenses	X	X
Total employee benefits	**X**	**X**
Impairment losses		
Research and development expenses	X	X
Goodwill impairment loss	X	X
Total impairment losses	**X**	**X**
Write-down of inventories		
Cost of sales	X	X
Total write-down of inventories	**X**	**X**

3. General principles of aggregation and disaggregation

PSAK 118 provides enhanced guidance on the principles of aggregation and disaggregation, focusing on grouping items based on shared characteristics. These principles are applied across the financial statements and used to define which line items are presented in the primary financial statements and what information is disclosed in the notes.

4. Other notable new requirements

PSAK 118 introduces additional limited changes to presentation and disclosure in the financial statements:

a) Statement of cash flows

- Operating profit subtotal as the starting point for reporting cash flows from operating activities using the indirect method; and
- Removes the policy choice for classifying dividends and interest received and paid – dividends and interest paid are generally classified in cash flows from financing activities, and dividends and interest received are generally classified in cash flows from investing activities.

b) Statement of financial position

- A new requirement to present goodwill separately.

c) **Earnings per share**
- Entities disclose earnings per share (EPS) information in the statement of profit or loss based on the subtotal of profits presented in accordance with PSAK 118.
- Additional EPS measures based on subtotals of profit/income not consistent with PSAK 118 must not be presented in the statement of profit or loss; instead, they can only be disclosed in the notes to the financial statements.

Application challenges

The changes in presentation and disclosure requirements introduced by PSAK 118 may require updates to entities' existing systems and processes as well as its compliance with contracts, agreements and compensation. As a result, entities are encouraged to commence preparations promptly to ensure a smooth transition and full compliance by the adoption date. We've identified several scenarios where significant judgements are required, and modification to entities' recording process may be necessary (the following list is not exhaustive):

Cases	Expected challenges in applying PSAK 118
Entities with performance measures beyond profit or loss statement	• Exercising professional judgment is often necessary to ascertain which metrics qualify as MPMs under the new guidelines. • It is advisable for entities to start identifying their MPMs, allowing ample time to implement any requisite modifications to processes or internal controls. This preparation is crucial to fulfill the forthcoming requirements, ensuring that adjustments from the profit or loss statement to MPM disclosures are accurate and complete. • Companies will identify the income tax effect and effect on non-controlling interests for each reconciling item in the reconciliation between an MPM and the most directly comparable subtotal listed in PSAK 118 or total or subtotal required by SAK Accounting Standards.

Entities with foreign exchange transactions	• PSAK 118 introduces comprehensive guidelines for the classification of foreign exchange differences in the statement of profit or loss, as outlined in PSAK 221. These differences must be categorised consistently with the income and expenses of the underlying items (i.e., the relevant transactions). For example:
	    o Foreign exchange differences on a foreign-currency denominated trade receivable should be classified within the operating category.
	    o Foreign exchange differences on a foreign-currency denominated liability arising from a transaction involving only the raising of finance will be classified in the financing category.
	• Prior to PSAK 118, many entities present foreign exchange gains and losses into a single line item, often under non-operating income or expense. The implementation of PSAK 118 will necessitate the allocation of these differences across various categories in the statement of profit or loss.
	• This reclassification will require precise mapping and calculations, potentially necessitating updates to the entity's ERP system to ensure accurate attribution of foreign exchange gains or losses to operating, investing or financing activities. Such updates are crucial for maintaining compliance and enhancing the clarity of financial reporting.

Entities applying hedging activities	• Gains and losses on hedging instruments should be classified in the same category as the income and expenses affected by the risks that the instruments are used to manage. • An entity may also have derivatives for purposes other than managing identified risks. The requirements relating to the classification of gains or losses on speculative derivatives are complex and will depend on the entities' business model.

Cases	Expected challenges in applying PSAK 118
Where entities have diverse businesses across multiple industries	• The presentation of income and expense categories should align with the entity's primary business activities to ensure clarity and relevance in financial reporting. • Evaluations must be carried out at the level of the reporting entity, which means that conclusions drawn at the consolidated group level may differ from those reached at the subsidiary level. • For example, large conglomerates need to exercise judgment in assessing whether a subsidiary's operating activities to provide customer financing or to invest in assets for capital appreciation also constitute main business activities for the consolidated group. If they do, such financing and investing activities may continue to be classified as operating activities for the consolidated group. If not, they should be reclassified as financing and investing activities by the group. • Judgment is needed to determine how these activities contribute to the group's overall objectives.
Determining operating activities in the parent-only financial statements	• Sub-holding or holding parent entities typically focus on strategic holding activities rather than engaging in specific operational activities. • Companies must undertake a thorough evaluation of the parent entity's activities, particularly when the parent primarily serves as a holding entity. It is crucial to determine how dividend income or interest income from subsidiaries, associates, or equity and debt investments should be classified—whether as operating, investing or financing activities—to ensure accurate financial reporting.
Entities enter into contracts and agreements, and compliance with them may be impacted by changes introduced by PSAK 118.	• For example, covenants in banking and loan agreements might impose minimum requirements for measures like the operating profit subtotal presented in a borrower's financial statements. Companies that present such subtotals might need to adjust what they include in these subtotals to align with the requirements of PSAK 118.
Entities whose remuneration policies for management are based on specific measures within the statement of profit or loss	• Companies that base their management remuneration policies on specific measures within the statement of profit or loss should evaluate whether to adjust these policies to accommodate changes to those measures under PSAK 118. • Furthermore, if the measures associated with management remuneration qualify as MPMs, the company will be required to provide disclosures for these MPMs.

What's next?

The updated guidance on aggregation and disaggregation, the revamped structure of the statement of profit or loss, and the expanded disclosure requirements are likely to demand substantial alterations to an entity's systems, chart of accounts, mappings and associated processes. The extent of operational transformation required by the new standard is significant. Consequently, entities are strongly advised to initiate preparations well in advance to ensure a seamless transition and complete compliance by the adoption date.

In Indonesia, the adoption of IFRS 18 through PSAK 118 may lead to substantial modifications to several Financial Services Authority (OJK) regulations related to the presentation and disclosure of financial statements. Key regulations potentially affected include Bapepam-LK VIII.G.7, which governs financial reporting requirements for public companies, and SEOJK no. 25/SEOJK.04/2021, which provides accounting guidelines for securities companies. As of the date of this guidance, OJK has not issued any amendments to these existing regulations. We will continue to monitor this evolving situation and provide relevant and timely insights in due course.

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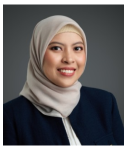

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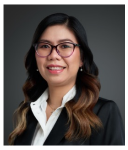

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