



Practical challenges in applying PSAK 118

February 2026





Introduction

The issuance of Indonesian Financial Accounting Standard (*Pernyataan Standar Akuntansi Keuangan/PSAK*) 118: Presentation and Disclosure in Financial Statements marks a significant milestone in financial reporting reform, introducing a new structure for the statement of profit or loss and enhanced transparency through Management-defined Performance Measures (MPMs) and detailed disaggregation requirements. While the standard aims to improve comparability and consistency across entities, its practical implementation presents notable challenges for many industries. From redefining operating profit and redesigning reporting systems to managing data granularity and judgmental classifications, the transition to PSAK 118 is expected to be one of the most operationally demanding accounting changes in recent years.

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01

Overview of key changes under PSAK 118

Statement of profit and loss

Introduction of two mandatory subtotals:

- a. Operating profit
- b. Profit before financing and income taxes

Classification of income and expenses in five categories:

- a. Operating
- b. Investing
- c. Financing
- d. Income taxes
- e. Result from discontinued operations

Additional guidance for companies with specific main business activities:

For some entities, such as banks or investment funds where investing or financing is the main business activity, classifying several income and expenses under the investing or financing categories would not faithfully represent their operating performance. Accordingly, PSAK 18 requires entities to assess whether they have specified main business activities and, where applicable, to classify the results of those activities within the operating category rather than the investing or financing category. The assessment of a specified main business activity is a matter of fact and should be based on evidence.

Introduction of two mandatory subtotals:

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	(X)	
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 for the year	X	Required subtotal

Classification of income and expenses in five categories:

1. Operating category

Not defined by PSAK 118, this is the “residual” category for income and expenses that are not classified in other categories. This will typically include the entity’s results from its main business activities.

2. Investing category

This category typically includes:

- Results of associates and joint ventures
- Results of cash and cash equivalent
- Assets that generate a return individually and largely independent of other resources.

3. Financing category

This category includes:

- All income and expenses from liabilities that involve only the raising of finance (such as typical bank borrowing)
- Interest expense and the effects of changes in interest rates from other liabilities (such as unwinding of the discount on a pension liability).

Management-defined performance measures (MPMs)

Identifying MPMs:

- a. Financial performance measure consisting of a subtotal of income and expenses.
- b. Communicates management’s view of an aspect of an entity’s financial performance.
- c. Used in public communications outside financial statements.

Disclosure of MPMs in a single note including:

- a. Explanation as to why an MPM communicates management’s view about the company’s financial performance including the calculation
- b. Reconciliation with the most directly comparable PSAK subtotal, including the income tax effect and effect on non-controlling interests (NCIs)

Illustrative example

	PSAK	Adjusting items			Management-defined performance measure
		Impairment losses	Restructuring expenses	Gains on disposal of property, plant and equipment	
Other operating income		—	—	(1,800)	
Research and development expenses		1,600	—	—	
General and administrative expenses		—	3,800	—	
Goodwill impairment loss		4,500	—	—	
Operating profit / Adjusted operating profit	57,000	6,100	3,800	(1,800)	65,100
Income tax expense		—	(589)	297	
Profit from continuing operations / Adjusted profit from continuing operations	32,100	6,100	3,211	(1,503)	39,908
Profit attributable to non-controlling interests		305	161	—	
Impairment losses		Impairment losses incurred in 20X2 did not yield any tax benefits because they were not eligible for tax deductions in Country A and Country B.			
Restructuring expenses		The restructuring expenses in 20X2 are related to XYZ Group’s restructuring programme ‘Apollo 20X2’. These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in Country C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of 20X2, which was 15.5%.			
Gains on disposal of property, plant and equipment		The tax effect of gains on disposal of property, plant and equipment is calculated based on the statutory tax rate applicable in Country D at the end of 20X2, which was 16.5%.			



Additional disclosures related to items of profit or loss

An entity shall classify and present expenses in the operating category of profit or loss using one or **both** characteristics, whichever provide the most useful summary:

- **By nature:** The economic resources consumed to accomplish the company's activities. For example, raw materials, salaries, advertising costs.
- **By function:** The activity to which the consumed resource relates. For example, cost of sales, distribution costs, administrative expenses.

Disclosure requirement for presenting expenses by function:

PSAK 118 requires companies that present expenses classified by function to disclose the amount of:

- Depreciation
- Amortisation
- Employee benefits
- Impairment loss
- Write-downs of inventories

included in each line item in the operating category of the statement of profit or loss.

This information is disclosed in a single note and provides investors with additional information about operating expenses to help them forecast future cash flows in changing economic conditions.

Illustrative example

	(in thousands of CU)	
	20X2	20X1
Depreciation		
Cost of sales	23,710	21,990
Research and development expenses	2,515	2,590
General and administrative expenses	4,975	4,750
Total depreciation	31,200	29,330
Amortisation		
Research and development expenses	13,840	12,690
Total amortisation	13,840	12,690
Employee benefits		
Cost of sales	61,640	57,175
Selling expenses	7,515	7,110
Research and development expenses	6,545	6,750
General and administrative expenses	8,920	5,825
Total employee benefits	84,620	76,860
Impairment losses ^(a)		
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	—
Total impairment losses	6,100	1,500
Write-down of inventories ^(a)		
Cost of sales	2,775	2,625
Total write-down of inventories	2,775	2,625

02

**Practical
implementation
challenges**



Practical implementation challenges

Here are some practical challenges that may be encountered in the implementation of PSAK 118:

1



System and process readiness

2



Classification judgements

3



MPMs

4



Additional disclosure requirements

System and process readiness

PSAK 118 introduces a **new structure for the statement of profit or loss**, requiring entities to classify income and expenses into three defined categories—operating, investing and financing—and to disclose additional subtotals such as operating profit. This structural shift means that **existing financial systems, chart of accounts and reporting processes**—which were designed around International Accounting Standard (IAS) 1 or PSAK 201 presentation—may no longer provide the information in the format or level of detail required.

In practice, most companies will need to:

- **Redesign its chart of accounts (COA)** to align accounts with the new categories
- **Modify mapping and reporting process**
- **Update consolidation and reporting tools** to generate compliant statements.

What's the practical challenge?

A. COA redesign

What changes: Companies need to tag or restructure their accounts to reflect whether transactions relate to operating, investing or financing activities.

Practical example of the challenge:

- A company may have a single gain/loss foreign currency exchange accounts for all the gain/loss impact for all transactions. Under PSAK 118, it must determine whether the gain/loss foreign currency exchange resulting from operating, investing or financing activities. In many companies, the configuration of foreign currency exchange differences within accounting and reporting systems is typically automated. Consequently, to comply with the requirements, the system configuration must now be revised to ensure that such differences are accurately flagged to the relevant COA based on the activity categories.
- Under the previous reporting structure, a group recorded all interest income in one general ledger account, regardless of its source. This included interest from customer receivables, term deposits and intercompany loans. Under PSAK 118, the company had to redesign its COA to differentiate between operating interest income (from trade and customer activities) and investing interest income (from excess cash placements and financial investments). Similarly, a single “other income” account previously aggregated gains from asset disposals, rental income and fair value changes. These are now separately coded to ensure correct classification between operating, investing and financing activities.
- Previously, some companies recorded the entire employee benefit expense arising from long-term benefits, such as defined benefit obligation plans, within a single operating expense account. Under PSAK 118, the interest cost of employee benefits must be separately identified, as it falls under financing activities. Consequently, companies need to split the existing operating expense account and redesign the COA to allow the separate recognition, service cost into operating activities and interest cost into financing activities.

B. Enterprise resource planning (ERP) and reporting process

What changes: ERP systems must be able to capture and report data in the new presentation structure, which may require new cost centres, reporting segments or posting keys.

Practical example of the challenge:

a. Limited flexibility to reclassify historical data retrospectively

- Historical COAs and ERP setups typically grouped different types of transactions (e.g. “other income,” “finance costs”) under a single account.
- Many ERP and consolidation systems were not designed to retain detailed source attributes required for PSAK 118 classification.
- Since the necessary breakdown between operating, investing and financing categories was not tracked, retrospective classification requires **manual data extraction and judgment**.
- Where manual reclassification is performed, maintaining **consistency across entities** becomes challenging.
- Reconstructing historical classifications demands extensive time and coordination across subsidiaries.

Example: A company’s historical “interest income” account includes both interest from trade receivables and interest from bank deposits. PSAK 118 requires these to be presented in operating and investing categories, respectively—but historical ledgers often do not separate these components.

b. Consolidation process and mapping adjustments

Under existing reporting systems, each subsidiary’s COA is often aligned with industry standards/practices. When consolidated, these differences create inconsistent mapping to PSAK 118 categories, requiring the group to develop:

- A standard classification framework that defines the group’s view of operating, investing and financing activities
- A mapping matrix to reconcile entity-level classifications to the group presentation
- Manual or automated consolidation adjustments to realign subsidiary results

Example: The consolidation process involves adjusting for differences in classification between entities within the group, where certain business activities classified as operating at the subsidiary level are not considered operating activities at the group level. For example, treasury income recorded by a holding company or investment income generated by a property fund within an industrial group may not be classified as operating results at the consolidated group level.

Classification judgements

A central challenge in implementing PSAK 118 is the judgment required to distinguish between operating and investing activities, particularly for diversified or vertically integrated groups. While PSAK 118 introduces clearer definitions, in practice, applying these concepts consistently across different business models, segments and jurisdictions is complex and often involves significant management interpretation.

What's the practical challenge?

a. Complexity in defining “Operating Activities” across entities

At the subsidiary level, each business typically defines “operating activities” based on its own nature of operations. However, in a diversified group—such as one combining banking, manufacturing and holding entities—what qualifies as operating income for one subsidiary might represent investing income at another.

Example: A group has a banking subsidiary, a manufacturing subsidiary and a holding company.

- For the banking entity, interest income and trading gains are operating by nature, since financial intermediation is its core business.
- For the manufacturing entity, similar gains from temporary investments or derivative instruments are investing activities.
- For the holding company, which does not conduct active operations and accounts for its investment in subsidiaries using equity method at its stand-alone financial statements, then most income (e.g., dividend and interest income) is investing rather than operating.

At the group consolidation level, PSAK 118 requires management to assess how these income and expense items should be classified based on the group's main business activities. As a result, items may need to be reclassified or mapped differently on consolidation to ensure the consolidated statement of profit or loss faithfully represents the group's operating activities. This often requires manual reclassification or mapping adjustments during consolidation.

b. Complexity in defining “Operating Activities” within a single segment with diverse transactions

- One key practical complication under PSAK 118 arises even within a single business segment that undertakes multiple types of transactions with differing economic characteristics. Although the entity may operate under one main business model, not all of its income and expense streams share the same nature or purpose. Management must therefore exercise judgment to determine which transactions represent the entity's core operating activities and which should be classified as investing or financing.

Example: A bank obtains financing/loans from another party, and this financing is not related to its activity of providing financing to customers. The bank chooses to classify the interest expense on this financing as a financing activity. Since the bank applies the requirement to record interest expenses from financing as a financing activity, the interest income arising from cash and cash equivalents— which is also not related to the bank's activity of providing financing to customers—should similarly be classified as an investing activity.

- Interest income and expense arising from lending and deposit-taking activities are commonly considered integral to a bank's core intermediation functions and are therefore often presented as operating activities in practice. However, banks typically invest in a variety of instruments beyond their lending and deposit-taking activities. Determining the extent to which such activities should be classified as operating requires significant judgment. This includes evaluating whether investing in these assets constitutes a main business activity of the bank, and whether a broader interpretation of investing as a main business activity, beyond traditional lending and deposit-taking, is appropriate. Consequently, the classification of income from investment portfolios depends on the entity's specific facts and circumstances and may fall under either operating or investing activities.
- Where two distinct business models exist—one involving holding investments to collect contractual cash flows and another focused on holding investments for portfolio sales—entities must consider how to classify the related income and expenses. It is important to determine whether these items should be classified as operating activities or investing activities.

c. Implication on Indonesian Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) regulatory ratios

This is particularly applicable to the banking industry, under current OJK reporting and internal management frameworks, net interest margin (NIM) is typically calculated as:

$$\frac{\text{Interest income} - \text{interest expense}}{\text{Average earning assets}}$$

This measure is designed to reflect the bank's core profitability from its intermediation activities—essentially, how efficiently the bank generates income from lending relative to the cost of funding (deposits, borrowings, etc.).

However, in practice, most banks' interest income includes both:

- Income from core lending activities (loans, trade finance, etc.)
- Income from investment portfolios (e.g., government securities held for liquidity or yield management)

Similarly, interest expense often includes:

- Funding costs directly tied to lending operations (deposits, interbank borrowings)
- Costs related to other financing sources (e.g., bonds issued for liquidity or investment leverage)

This aggregation has historically been accepted because PSAK 201 did not require the segregation of income and expenses by business purpose, and OJK reporting templates followed the same format. However, with the implementation of PSAK 118, careful consideration is needed regarding its potential impact of PSAK 118 on OJK regulatory ratios. Specifically, questions remain as to whether only interest income and expenses classified in the operating category should be included in the NIM calculation, or whether other categories of income and

expense should also be considered. At this stage, given the lack of explicit clarity or guidance, it is important to anticipate further regulatory clarification from OJK on this matter. Such clarification will be crucial to ensure consistent and compliant application of NIM calculations post-PSAK 118 adoption.

d. Non-elimination of certain intercompany foreign exchange (forex)

Normally, intercompany balances and related gains/losses are eliminated on consolidation. However, when intercompany transactions involve different functional currencies and are not fully settled, forex differences may remain because:

- They represent real exposure to currency risk at the group level
- PSAK requires recognition of these differences in profit or loss or other comprehensive income (OCI) (depending on whether it's a monetary item forming part of net investment in a foreign operation)

PSAK 118 does not provide explicit guidance for classification when related items are eliminated. However, the IFRIC Agenda Decision on IFRS 18 (September 2025) clarifies that this is an accounting policy matter and identifies two acceptable approaches:

1. View I – Operating as the default category

When the related income and expenses from the intercompany transaction are eliminated on consolidation and therefore not presented in the consolidated statement of profit or loss, there is no corresponding category in which to classify the exchange difference. In this case, the exchange difference is classified in the operating category by default, in accordance with paragraph 52 of PSAK 118.

2. View II – Follow the category of the underlying item before elimination, or, if doing so would involve undue cost or effort, in the operating category

Alternatively, applying paragraph PP65 of PSAK 118, the exchange difference may be classified in the same category in which the income and expenses from the intercompany transaction would have been classified before elimination (e.g. financing for intercompany loans). If determining this classification would involve undue cost or effort, the exchange difference is instead classified in the operating category.

Accordingly, while PSAK 118 does not prescribe a single mandatory classification outcome, the IFRIC Agenda Decision clarifies that entities must select and apply an accounting policy consistently. In determining the appropriate accounting policy, management is expected to exercise judgment by carefully considering the presentation impact within each category—operating, investing, and financing. The chosen policy should provide a faithful representation of the company's financial performance.

If management opts to classify all foreign exchange differences as operating expenses, this will likely increase reported operating costs. Consequently, the company's operating profit would appear lower, which may affect stakeholders' perception of the company's operational performance. On the other hand, if management chooses the alternative approach of classifying foreign exchange differences to specific underlying assets and liabilities, this process can become complex and challenging. Accurately allocating foreign exchange impacts to each individual asset and liability requires more detailed analysis and robust internal systems, which may impose a significant administrative burden on management.

e. Determination of operating activities in the stand-alone financial statement of holding company

A holding parent typically:

- Has no revenue-generating operations
- Earns income from dividends or fair value changes on investments
- Incurs expenses like administrative costs and head office salaries.

PSAK 118 requires entities to identify and assess their main business activities when classifying income and expenses into operating, investing, and financing categories at reporting entity level. Accordingly, judgement is required in determining whether investing in subsidiaries constitutes the holding company's main business activity.

- If investing in subsidiaries is considered as main business activity, related income and expenses should be classified within the operating category, unless those investments are accounted for applying the equity method.
- If not, such income and expenses are generally classified within the investing category, while administrative and head-office costs remain within operating, potentially resulting in a negative operating subtotal (especially when the company does not have other business activities).

In this context, entities preparing stand-alone financial statements should also consider whether the accounting policy applied to investments in subsidiaries (e.g. cost or equity method, where permitted) continues to provide a useful structured summary in accordance with PSAK 118.

When management elects to change the accounting policy for investments in subsidiaries within the stand-alone financial statements from the equity method to the cost method, several practical challenges arise. The initial significant challenge concerns the determination of the "cost" of the investment as at the date of transition. Under the equity method, the carrying amount of an investment reflects the original acquisition price, adjusted by the parent's share of post-acquisition profits or losses and dividends received. This accumulated figure does not represent the original acquisition cost. Consequently, management is required to reconstruct the historical acquisition cost of the investment, which can be difficult in practice, especially where the investment was acquired many years prior and supporting documentation is incomplete or fragmented.

This challenge is significantly amplified where control was obtained through a step acquisition. In such cases, the parent may have acquired interests in the subsidiary through multiple transactions at different dates and prices. Determining a single "cost" amount requires management to identify and aggregate the consideration paid for each tranche that resulted in control, while excluding amounts that arose from post-acquisition earnings previously recognised under the equity method. In practice, separating these components can be complex, particularly where detailed acquisition records are no longer readily available.

MPMs

A key change introduced by PSAK 118 is the requirement to disclose MPMs—subtotals of income and expenses used in external communications that reflect management’s perspective on performance but are not prescribed by accounting standards. While this requirement aims to improve transparency between management reporting and external financial statements, it also presents considerable practical implementation challenges.

What’s the practical challenge?

a. Identification and completeness of MPMs

The initial and often most challenging step is to identify which performance measures qualify as MPMs. Many entities utilise a range of non-generally accepted accounting principles (GAAP) or management metrics, such as:

- Earnings before interest, taxes, depreciation and amortisation (EBITDA)/ earnings before interest and taxes (EBIT)/adjusted EBITDA
- Core operating profit/underlying profit
- Recurring income/normalised net income
- Adjusted earnings per share (EPS) or “operating income before one-off items”.

Not all internally tracked metrics qualify—only those communicated publicly fall within the scope of MPMs. The key challenge lies in ensuring a comprehensive identification of all such measures across all communication channels.

Practical example: A company might present “EBITDA” in investor presentations and “core profit” in press releases. Under PSAK 118, all of these qualify as MPMs because they are externally shared. Missing the identification of any of these metrics leads to incomplete disclosure and potential non-compliance. To address this, entities typically conduct a cross-channel inventory of all performance measures appearing in:

- Annual reports
- Quarterly or ad-hoc investor updates
- Press releases and websites
- Regulatory filings (i.e. publication to Indonesia Stock Exchange/IDX).

This inventory serves as a master list of MPMs to be defined, governed and reconciled accordingly.



b. Ensuring auditability and documentation

Unlike PSAK-defined subtotals (e.g., operating profit), MPMs are determined by management, making them more susceptible to subjectivity and selective adjustments. To ensure auditability, entities must be able to reconcile each MPM to the closest PSAK-defined subtotal in the income statement (such as operating profit, profit before tax or total profit).

A significant practical challenge is that the adjustment items used in MPMs—such as restructuring costs, fair value changes or non-recurring items—are often tracked manually or outside the general ledger. In the absence of system-level tagging, producing reliable reconciliations requires manual analysis and spreadsheet-based tracking, which heightens the risk of inconsistencies and potential audit disputes.

Auditors will expect comprehensive policy documentation detailing:

- The rationale for including or excluding specific items.
- The methods for identifying and validating adjustments.
- The process for reconciling MPMs to PSAK-defined financial results.

Achieving this level of transparency may necessitate redesigning reporting models to ensure **complete traceability from general ledger transactions through to MPM adjustments**.

c. System and process readiness

Many ERP systems and consolidation tools are currently not configured to automatically generate data based on MPMs. Consequently, MPM adjustments frequently depend on manual inputs or management overlays throughout the reporting cycle.

Under PSAK 118, entities will need to integrate MPM logic into their reporting systems by:

- Incorporating data tags or flags within the COA to identify MPM-related adjustments
- Developing automated reconciliation templates that link MPMs to PSAK-defined subtotals
- Establishing governance frameworks to approve, update and monitor any changes in MPM definitions.

Implementing these measures helps to reduce human error, improve data consistency and enhance the reliability and auditability of MPM disclosures throughout reporting periods.

d. Exemption from MPM disclosure for private entities

Under PSAK 118, entities are required to disclose MPMs only when management disclose specific financial performance measures in the public communications that reflect management's view of performance. For private entities, where performance measures are communicated only to specific counterparties—such as to lenders, private shareholders, or a parent/private equity investor—and not made available to all users of the financial statements, such measures do not meet the definition of MPMs. Accordingly, in these circumstances, there may be no MPMs required to be disclosed.

Management should also carefully monitor the completeness of MPMs by evaluate whether any performance measures are included in all public communications, such as management commentary, written reports distributed to all users, press releases, or investor presentations. Communications that are non-public in nature are excluded from the scope of MPMs.

e. Cross-department coordination to ensure consistency of disclosures

Under PSAK 118, the MPMs disclosed in the financial statements must be consistent with those communicated across other external channels, such as annual reports, investor presentations and management commentaries. Since these materials are often prepared by different departments—finance, investor relations and corporate communications—the risk of inconsistency is significant.

Achieving alignment requires a coordinated approach, including consistent definitions, standardised templates and clearly defined timelines for review prior to external publication. This process may involve establishing internal policies, designating responsibility for review and approval, and implementing governance controls to ensure that the same measures and reconciliations are presented consistently across all public documents. The challenge becomes even greater when the annual report is published after the financial statements, as last-minute changes may lead to discrepancies.



Additional disclosure requirements

Additional disclosure for expense by function

Under PSAK 118, entities presenting expenses by function in the statement of profit or loss are also required to disclose a breakdown of total operating expenses by nature—such as depreciation, employee benefits, amortisation, impairment loss and write-downs of inventories.

When disclosing these expenses, management may present the amount recognised within the operating category for the current period. Additionally, management may choose to include amounts that have been capitalised into the carrying amount of assets in the notes. For example, if the entity capitalises depreciation into inventory, it may also opt to disclose the capitalised amount as part of the total depreciation expense for the period.

Challenges Arising from Standard Costing Systems

For manufacturing or cost-intensive industries utilising standard costing systems, this presents a significant implementation challenge. Standard costing systems typically classify costs by behaviour (e.g., fixed vs. variable) or by responsibility centre, rather than by the nature categories defined in PSAK 118.

Currently, many systems record costs in broad categories such as variable manufacturing costs, fixed overhead or labour costs, without further disaggregation into the five nature-based components required by PSAK 118.

To achieve compliance, management will need to:

- Redesign the cost mapping logic within the chart of accounts or cost centre structure to enable direct linkage between standard cost components and PSAK 118's five required nature categories
- Develop clear allocation rules for standard cost variances—for example, determining whether labour efficiency variances should be classified under employee benefits or other expenses
- Enhance ERP or costing systems to tag cost elements with both “function” and “nature” attributes
- Establish policies and documentation to ensure consistent classification methodologies across entities and reporting periods.

The key practical challenge is bridging the gap between management accounting design—which focuses on cost control—and financial reporting requirements—which emphasise expense classification by nature. Without system enhancements or detailed mapping, entities may face difficulties producing a reliable and auditable breakdown by nature, potentially resulting in manual workarounds or judgment-based allocations that undermine transparency and comparability.



Additional complexity where costs include item capitalised into assets

An additional layer of complexity arises where costs include the amount that are capitalised into assets, such as:

- Inventory
- Property, plant, and equipment
- Internally generated assets

In these cases, management is required not only to identify expenses recognised in profit or loss, but also to trace the amount by nature that have been capitalised in the assets.

In practice, this can be particularly challenging because:

- Capitalised amounts are often recorded at an aggregated level within asset accounts.
- Underlying cost components (e.g. labour, depreciation, amortisation) may not be separately identifiable once capitalised.
- Standard costing systems may not retain sufficient granularity to trace the original nature of costs embedded in asset balances.

As a result, determining how much depreciation, employee benefits or other costs have been capitalised during the period may require:

- Retrospective analysis
- Estimation techniques
- Manual allocations based on assumptions

This increases the risk of judgement-based allocations of the disclosed information if not supported by robust system logic and documentation.

03

**Practical tips for
preparers**



What questions should you ask yourself to effectively implement PSAK 118?

What should preparer ask themselves?	Why is it important?	Why should you care?
<p>Have I already identified whether my reporting entity has one or both of the specified main business activities set out in PSAK 118?</p>	<p>PSAK 118 requires entities to assess whether they invest in assets and/or provide financing to customers as a specified main business activity.</p> <p>If the entity has one or both of these specified main business activities, certain income and expenses that would otherwise be classified under the investing or financing category, will instead be classified under the operating category.</p>	<p>Entities may need to apply judgement to determine the specified main business activity(ies) of the entity.</p> <p>This determination is the starting point in determining the appropriate classification of income and expenses in the statement of profit or loss.</p>
<p>Have I determined how the requirements in PSAK 118 would impact the existing classification of income and expenses in the statement of profit or loss?</p>	<p>PSAK 118 requires items of income and expenses to be classified in the statement of profit or loss in one of five categories:</p> <ul style="list-style-type: none"> • Operating • Investing • Financing • Income taxes • Discontinued operations <p>PSAK 118 includes specific requirements for items to be classified in either the investing or financing category based on the type of income and expense and the type of asset or liability it relates to.</p> <p>The operating category is not defined by PSAK 118. It is the residual category for income and expenses that are not classified in the other categories. This approach aims to include income and expenses from an entity's main business activities within operating activities.</p>	<p>Entities may need to reassess their chart of accounts, update process and IT systems to ensure data is captured with sufficient granularity to classify income and expenses in the required categories.</p> <p>Updating charts of accounts, subledgers, or consolidation reporting packs can take time and effort.</p>
<p>Where are foreign exchange gains and losses currently presented in the statement of profit or loss?</p>	<p>PSAK 118 requires foreign exchange gains and losses to be presented in the same category as the income and expenses from the items that resulted in the foreign exchange differences. For example, if there is forex on a borrowing, this forex would be presented in the financing category.</p> <p>If classifying certain foreign exchange differences to the appropriate category would involve undue cost or effort, an entity should instead classify the affected foreign exchange differences in the operating category.</p>	<p>These requirements could result in foreign exchange differences being recognised in multiple places in the statement of profit or loss, which is likely to be a change from current practice and the need to make system changes.</p>

What should preparer ask themselves?	Why is it important?	Why should you care?
<p>Do I plan to classify expenses by function in the statement of profit or loss?</p>	<p>PSAK 118 requires entities to present expenses in the operating category of the statement of profit or loss based on their function, nature, or a mix of function and nature.</p> <p>Entities that classify expenses by function are required to provide additional disclosures. These disclosures include disclosing, in a single note, the total amount recognised in the current period relating to the operating category of the following items (including amounts that were classified into the carrying amount of other assets):</p> <ul style="list-style-type: none"> • Depreciation of property, plant and equipment, investment property and right-of-use assets • Amortisation of intangible assets within the scope of PSAK 238 • Employee benefits as required by PSAK 219 and the expense for services received from employees when applying PSAK 102 • Impairment losses and reversal of impairment losses for assets within the scope of PSAK 236 • Write-down and reversal of inventories 	<p>Current general ledger and IT systems may not be configured to provide these amounts for each function. This can be tricky because the amounts either need to be the cost incurred or the expense in the profit and loss. For example, if an entity capitalises depreciation into inventory, it might be difficult for the system to be able to track when that depreciation is recognised in profit and loss if the inventory is not sold in the period.</p> <p>Entities therefore need to select their policy and assess whether they need to update their processes or systems to obtain the data required for these disclosures.</p>
<p>Have I considered how the requirements in PSAK 118 will impact how I aggregate and disaggregate items in the primary financial statements and notes?</p>	<p>PSAK 118 includes new principles on aggregation and disaggregation.</p> <p>Items are aggregated based on shared characteristics and disaggregated based on the characteristics that are not shared. Items should be disaggregated when the resulting information is material.</p> <p>Entities will need to apply judgement to aggregate or disaggregate items based on characteristics to determine the:</p> <ul style="list-style-type: none"> • Line items to be presented in the primary financial statements such that the primary financial statements provide useful structured summaries • Information to be disclosed in the notes to provide material information 	<p>At a minimum, entities will need to consider the accounts in their primary financial statements and the notes to determine if they are sufficiently disaggregated in compliance with the new requirements.</p> <p>On the other hand, this may also provide entities with the opportunity to reassess how items are aggregated and disaggregated and to respond to any concerns previously raised by investors and other users of the financial statements.</p>

What should preparer ask themselves?	Why is it important?	Why should you care?
<p>Do my primary financial statements and/or notes include line items labelled as 'other'?</p>	<p>The requirements in PSAK 118 aim to reduce the use of 'other'.</p> <p>Entities need to apply judgement to aggregate or disaggregate items based on characteristics to determine the:</p> <ul style="list-style-type: none"> • Line items to be presented in the primary financial statements such that the primary financial statements provide useful structured summaries • Information to be disclosed in the notes to provide material information <p>Totals, subtotals and line items presented in the primary financial statements and items disclosed in the notes should be described and labelled in a way that faithfully represents the characteristics of the item.</p> <p>Entities should provide all necessary descriptions and explanations for users to understand the items. In some cases, these might include:</p> <ul style="list-style-type: none"> • An explanation of the meaning of the terms the entity uses, if they are not immediately apparent • Information about how assets, liabilities, equity, income, expenses and cash flows have been aggregated or disaggregated 	<p>Reduction of the use of the labelling 'other' was one of the key objectives of this project.</p> <p>Entities will need to identify and quantify what each 'other' category contains to determine whether these items have been appropriately aggregated or disaggregated and whether they have been labelled in an informative manner.</p>
<p>Have I assessed all my existing performance measures that are disclosed in public communications outside of the financial statements to determine whether they meet the definition of management performance measures (MPMs)?</p>	<p>For a performance measure to be an MPM, it needs to meet all of the following three requirements:</p> <ul style="list-style-type: none"> • It needs to be a 'subtotal of income and expenses' • That communicates management's view of an aspect of the financial performance of the entity as a whole to the users of financial statements • It is used in public communications outside the financial statements <p>PSAK 118 requires extensive disclosures in a single note about each MPM, including a reconciliation between the MPM and the most directly comparable PSAK-defined subtotal.</p> <p>This reconciliation also needs to include the income tax effect and the effect of noncontrolling interest (NCI) for each line item disclosed.</p>	<p>The identification of MPMs and the determination of the income tax and NCI effects may involve significant judgement.</p> <p>In addition, the requirement to identify and disclose MPMs, effectively includes information in the financial statements that may have not been subject to the entity's financial reporting processes and controls or audit in previous reporting periods.</p> <p>Entities therefore need to ensure that they have appropriate processes and controls in place to gather the data needed for the required disclosures.</p> <p>Entities might also need to engage with their Investor Relations function to manage any relevant messaging related to these new requirements.</p>

What should preparer ask themselves?

Have I considered how PSAK 118 will impact my interim reporting?

Why is it important?

Interim financial statements presented in accordance with PSAK 234, should include the following in the first year of applying PSAK 118:

- Each heading the entity expects to present in applying PSAK 118
- The required subtotals in PSAK 118
- Reconciliations for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current and cumulative current periods between:
 - The restated amounts presented applying the accounting policies for the comparative period and the cumulative comparative period applying PSAK 118, and
 - The amounts previously presented applying the accounting policies for the comparative period and cumulative comparative period applying PSAK 101

Entities are permitted but not required to disclose these reconciliations for the current period or earlier comparative periods (than the immediately preceding period).

Entities also need to provide disclosures about MPMs in their interim financial statements.

Why should you care?

The first comparative periods will be Q1 2026/H1 2026—which means that entities need to start assessing the impact of PSAK 118 earlier rather than later.

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