

A Practical Guide to the New and Revised Indonesian Financial Accounting Standards for 2017

September 2017



Introduction

This publication is a practical guide to the revised Indonesian Financial Accounting Standards (“IFAS”) and new interpretations which come into effect in 2017. In order to further align IFAS with global standards, the Indonesian Financial Accounting Standards Board (“DSAK-IAI”) has revised several existing standards through standard amendments and annual improvement projects. As a result, by 2017 IFAS will be substantially converged with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) up to 2016.

Apart from the issuance of those amendments, DSAK-IAI also introduced two new interpretations to the IFAS (“ISFAS”), which are ISAK 31 ‘Interpretation on the scope of PSAK 13: Investment Property’ and ISAK 32 ‘Definition and Hierarchy of Financial Accounting Standards’. Those interpretations are issued in order to address local accounting concerns. Thus, there is no equivalent interpretation in IFRS.

In addition, DSAK-IAI also issued new PSAK 70, ‘Accounting for Tax Amnesty Assets and Liabilities’ in 19 September 2016 to provide a specific accounting treatment related to the application of the Tax Amnesty Law. We have published a separate publication specific for PSAK 70 which was released in October 2016.

Also included in this practical guide is our brief guidance on forthcoming standards (see Appendix). DSAK-IAI has issued new PSAK 69 ‘Agriculture’ and the amendment of to PSAK 16 ‘Fixed assets’ regarding bearer plants, as well as annual improvements to the PSAKs which will be effective from 1 January 2018.

Lastly, it is worth noting that there are four major standards that have been issued but which are not yet applicable at the global level – IFRS 9, ‘Financial instruments’, IFRS 15, ‘Revenue from contracts with customers’, IFRS 16 ‘Leases’ and IFRS 17 ‘Insurance Contract’. It is clear that the intention of the Indonesian standard setters is to reach international convergence. Thus, we can expect that these standards will also be adopted locally in the near future. Stay tuned!

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Amended Standards

Disclosure Initiative

Amendments to PSAK 1, 'Presentation of financial statement'

Early adoption is permitted

Transition Provision: Prospective

What is the issue?

These amendments clarify the guidance in PSAK 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective from 1 January 2017.

What are the impacts?

The following is a summary of the key changes.

Key points	General description of requirement
Materiality	<p>An entity should not aggregate or disaggregate information in a manner that obscures useful information, for example, by aggregating items that have different characteristics or by disclosing a large amount of immaterial detail.</p> <p>When management determines an item is material, the amendments require assessment of which specific disclosures set out in the relevant standard should be presented and whether additional information is necessary to understand the impact on the financial position or performance.</p>
Disaggregation and subtotals	<p>The amendments clarify that it may be necessary to disaggregate some of the line items specified in PSAK 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required when it is relevant to an understanding of the entity's financial position or performance.</p> <p>The amendments address additional subtotals in the statement of financial position or the statement of profit or loss and other comprehensive income. The amendments give guidance on what additional subtotals are acceptable and how they are presented. The revised guidance captures common subtotals that are not specifically required by PSAK, such as operating profit or profit before interest and tax. Additional subtotals should:</p> <ul style="list-style-type: none">• Be made up of items recognised and measured in accordance with PSAK;• Be presented and labelled in a manner that makes the components of the subtotal understandable;• Be consistent from period to period; and• Not be displayed with more prominence than the subtotals and totals specified in PSAK 1. <p>The amendments require that additional subtotals in the statement of profit or loss and other comprehensive income should be reconciled to the subtotals and totals required by PSAK 1.</p>



Key points	General description of requirement
Notes	Management should consider the understandability and comparability of the financial statements when it determines the order of the notes. An entity is not required to present the notes to the financial statements in a particular order. An entity might, for example, present more significant notes first, or present linked areas sequentially. Such flexibility, which is already permitted by PSAK 1, allows management to tailor their presentation to their circumstances.
Disclosure of accounting policies	The amendments clarify how to identify a significant accounting policy by removing unhelpful examples from PSAK 1.
OCI arising from investments accounted for under the equity method	The amendments require that the share of other comprehensive income arising from investments accounted for under the equity method is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

Insight

The amendments will affect every entity preparing PSAK financial statements. The amendments do not require specific changes. However, they clarify a number of presentation issues and highlight that financial statements reporters are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

Prepares should consider their financial statements in light of these clarifications and whether there is an opportunity to clarify or improve the disclosure.

The order of the notes needs to balance understandability and comparability and changes should generally result from a specific change in facts and circumstances.

New Interpretation

ISAK 31 Interpretation of the scope of PSAK 13: Investment Property

Early adoption is permitted

Transition provision: Modified prospective

ISAK 31 provides an interpretation of the general characteristics of a building that meet the definition of an investment property under PSAK 13. This interpretation is effective from 1 January 2017.

What is the issue?

Investment property is defined in PSAK 13 as property (land or building – or part of a building – or both) held to earn rentals or for capital appreciation or both rather than for use in production or administrative matters, and sale in the ordinary course of business. Currently, there are business models where the entity owns assets other than land or buildings or parts of a building or both (e.g. telecommunication towers, gas storage tanks, and advertising billboards), which are held to earn rental income. Though the assets may have some characteristics of an investment property, it is questionable whether those assets qualify as a “building” under PSAK 13 because they lack the features usually associated with a building, such as walls, floors, and a roof.

The DSAK IAI, through ISAK 31, provides an interpretation of the meaning of the term “building” in

the definition of investment property under PSAK 13. An asset qualifies as a building if it possesses the physical features usually associated with a building such as walls, floors, and a roof.

What are the impacts?

Entities that have investment property other than land should assess whether the asset can qualify as a building based on the general physical characteristics provided by the new ISAK. Assets that do not have physical characteristics of a building such as advertising billboards, telecommunication towers, and gas storage tanks, though they are used for earning rentals, should not be classified as investment property.

The interpretation is applied prospectively for annual reporting periods on or after 1 January 2017. Existing buildings held to earn rentals or for capital appreciation or both should be reassessed based on the provisions of the new interpretation as at 1 January 2016. Any impact on such reassessment should be adjusted retrospectively as at 1 January 2016 and the prior years' financial statements need not to be restated.

If subsequent to the reassessment the entity decides to change the classification into fixed assets (PSAK 16), the retrospective adjustment depends on whether the subsequent measurement is using the cost or revaluation model. If the cost model is used, the adjustment is against the retained earnings. If the revaluation model is used, appropriate adjustments should be made to retained earnings and any revaluation surplus in equity.

ISAK 32 Definition and Hierarchy of Financial Accounting Standards

What is the issue?

Financial Accounting Standards (“Standar Akuntansi Keuangan” or SAK), as defined under PSAK 1 and PSAK 25, are the standards and interpretations which are issued by the Accounting Standard Board of IAI (“DSAK-IAI”) and the Syariah Accounting Standard Board of IAI (“DSAS IAI”), including the pronouncements issued by capital market regulators for entities under their supervision. The hierarchy of SAK is currently included in PSAK 25 that provides guidance in developing and applying accounting policies in the absence of a specific PSAK/ISAK applicable for a particular transaction.

This ISAK is issued in order to provide clarity on the definition and hierarchy between PSAKs, ISAKs and capital market regulations especially in situations where there are inconsistencies between PSAKs/ISAKs and pronouncements issued by the capital market regulators. In such situations, ISAK 32 requires the entity to apply the requirements of the specific PSAK/ISAK in order to state an explicit compliance with SAK, as the applicable financial reporting framework. Otherwise, the entity shall not be able to make an explicit and unreserved statement of compliance with SAK as required by PSAK 1.

Who will be affected?

The issuance of this ISAK 32 may affect those entities that apply both the PSAKs/ISAKs and the capital market regulation (i.e. public entities with listed shares or bonds). A careful analysis shall be made in order to identify the applicable financial reporting framework. If the entity is required by the capital market regulators to apply a specific pronouncement that conflicts with an existing PSAK/ISAK, an entity shall use the financial reporting framework defined by the capital market regulators.



Annual Improvements 2016

As part of the continuing IFRS convergence process, the following table provides a summary of the annual improvements of PSAKs that are effective from 1 January 2017. 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 3, 'Interim financial statements'	The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report'. The amendment further amends PSAK 3 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.
PSAK 24, 'Employee benefit'	The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
PSAK 58, 'Non-current assets held for sale'	The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held-for-sale' to 'held-for-distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and it does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' to 'held for distribution' simply because the manner of disposal has changed. The amendment also rectifies an omission in the standard by explaining that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'.
PSAK 60, 'Financial instrument: Disclosure'	If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, PSAK 60 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. PSAK 60 provides guidance on what is meant by continuing involvement in this context. The amendment adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. The amendment is prospective with an option to apply retrospectively.

Appendix A - Forthcoming Requirements

Title	Key Requirements	Effective date
PSAK 69, 'Agriculture'	<p>PSAK 69 provides definition and recognition criteria for biological assets or agricultural produce. Those assets are measured at fair value less cost to sell with the changes in the carrying amounts recognised in the profit or loss.</p> <p>PSAK 69 defines bearer plants which are excluded from the scope of this standard.</p>	1 January 2018, in accordance with PSAK 25. Early adoption is permitted. If the entity applies the amendment earlier, it shall disclose that fact.
Agriculture: Bearer plants – Amendments to PSAK 16	With the adoption of PSAK 69 where bearer plants are distinguished from biological assets, PSAK 16 was amended to provide the clarification that biological assets that meet the definition of bearer plants are accounted for as fixed assets; definition, recognition and measurement of the bearer plants shall be made in accordance with PSAK 16.	1 January 2018, in accordance with PSAK 25. Early adoption is permitted. If the entity applies the amendment earlier, it shall disclose that fact.
Disclosure initiative: Statement of cash flows - Amendments to PSAK 2	The amendment is part of the Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Entities are required to explain changes in their liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows.	1 January 2018. Early adoption is permitted.
Recognition of deferred tax assets for unrealised losses – Amendments to PSAK 46	These amendments clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.	1 January 2018. Early adoption is permitted.
Annual Improvements 2017	<p>The annual improvement provides the following clarification:</p> <ul style="list-style-type: none"> PSAK 15 'Investment in Associates and Joint Ventures' allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition; and The disclosure requirement of PSAK 67 'Disclosure of Interests in Other Entities' is applicable to interests in entities classified as held-for-sale except for summarised financial information (para B17 of PSAK 67). Previously, it was unclear whether all other PSAK 67 requirements were applicable for these interests. The objective of PSAK 67 was to provide information about the nature of interests in other entities, risks associated with these interests, and the effect of these interests on financial statements. The Board noted that this objective is relevant to interests in other entities regardless of whether they are classified as held for sale. 	1 January 2018. Early adoption is permitted.
PSAK 71, 'Financial Instruments'	DSAK-IAI has issued the PSAK 71 on late July 2017. 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.	1 January 2020. Early adoption is permitted.
PSAK 72 'Revenue from contract with Customers'	Together with the issuance of PSAK 71, DSAK-IAI also issued PSAK 72. 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 5-steps model.	1 January 2020. Early adoption is permitted.
Amendment to the PSAK 62 'Insurance Contract': Applying PSAK 71 'Financial Instruments' to PSAK 62 'Insurance Contract'	This amendment is a consequential amendment due to the issuance of PSAK 71. The amended standard provides guidance for entity who's issuing insurance contract (especially insurance company) on how to implementing PSAK 71. There would be 2 approaches that can be chosen by reporting entity which are deferral and overlay approach.	1 January 2020. Early adoption is permitted.

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