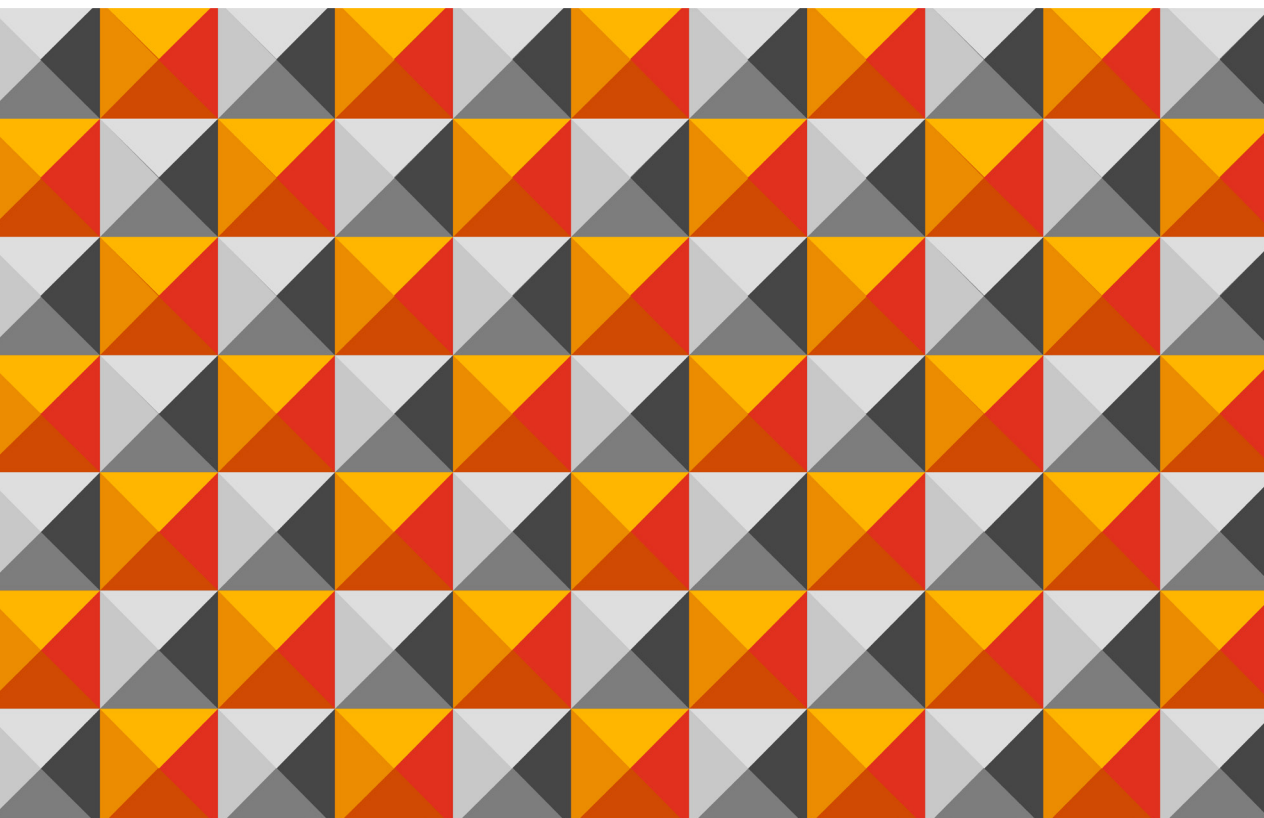


# A Practical Guide to the New and Revised Indonesian Financial Standards for 2021

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# Introduction

This publication is a practical guide to the new, revised and amended Indonesian Financial Accounting Standards (“IFAS”), which come into effect in 2021. It contains an overview of the changes in reporting requirements, which may then be useful for the entities’ future reporting periods by gaining sufficient familiarity with those standards first.

There is no new accounting standard issued by DSAK IAI, which is effective as at 1 January 2021. There are also several amendments. Accordingly, DSAK-IAI has published amendments to PSAK 55, 60, 62, 71 and 73 regarding the interest rate benchmark reform stage 2. Furthermore, DSAK-IAI also published an amendment to PSAK 73 regarding accounting for rent concessions directly caused by the pandemic after 30 June 2021. This amendment aims to extend the scope of the lease concession period until 30 June 2022. Lastly, this year is the first-year effective date for amendments to PSAK 22 regarding definition of business, which has been issued by DSAK IAI in 2019.

Other than new IFAS, some of the standards issued by DSAS-IAI became effective as of 1 January 2021. New sharia accounting standard PSAK 112, Accounting for endowment begins to be effective this year. It is also followed by the amendment to PSAK 107, Ijarah Accounting and annual improvements to PSAK to PSAK 110: Sukuk Accounting and PSAK 111, Wa’d Accounting. The latest update will not be covered in this publication.

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. In June 2020, the IASB issued the final stage amendments to IFRS 17 and postponed its effective date to 2023. And finally, DSAK-IAI ratified it on 26 November 2020 and will be effectively applied for the annual reporting period as of or after 1 January 2025. Early adoption is permitted.

Included in this practical guide is our brief guidance on forthcoming requirements that will affect reporters in the coming years (see the Appendix page).

# Amended accounting standards

## Amendments to PSAK 22 'Business combination' - Definition of a Business

Transition Provision: Retrospective

### Issue

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

The definition of the term *outputs* is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

An entity can apply a concentration test that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

### Impact

The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.

Differences in accounting between business combinations and asset acquisitions include, among other things, the recognition of goodwill, recognition and measurement of contingent consideration, accounting for transaction costs, and deferred tax accounting.

### Effective Date

An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2021 and to asset acquisitions that occur on or after the beginning of that period. Earlier application of these amendments is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

## Amendments to PSAK 55, PSAK 60, PSAK 62, PSAK 71 and PSAK 73 – Interest Rate Benchmark Reform (Phase 2)

Transition Provision: Retrospective

### Issue

The DSAK has undertaken a two-phase project to consider what, if any, relief to give from the effects of IBOR reform. The Phase 1 amendments, issued in 24 June 2020, provided temporary relief from applying specific hedge accounting requirements to relationships affected by uncertainties arising as a result of IBOR reform ('the Phase 1 relief'). The Phase 2 amendments that were issued on 16 December 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative.

### What is the nature of the amendments?

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform.

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of PSAK 71. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from PSAK 71 are also required to apply the same practical expedient. PSAK 73 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate).

- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships.

### Impact

The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 relief to a non-contractually specified risk component at the earlier of either when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

#### *Additional temporary exceptions from applying specific hedge accounting requirement*

The Phase 2 amendments provide additional temporary relief from applying specific PSAK 50 and PSAK 71 hedge accounting requirements to hedging relationships directly affected by IBOR Reform:

<b>Changes to designations and hedge documentation</b>	When the Phase 1 relief ceases to apply, entities are required to amend the hedge documentation to reflect changes that are required by IBOR reform by the end of the reporting period during which the changes are made. Such amendments do not constitute a discontinuation.
<b>Amounts accumulated in the cash flow hedge reserve</b>	When amending the description of a hedged item in the hedge documentation, the amounts accumulated in the cash flow hedge reserve are deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
<b>Retrospective effectiveness test (IAS 39 only)</b>	For the purposes of assessing the retrospective effectiveness of a hedge relationship on a cumulative basis, an entity may, on an individual hedge basis, reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply the retrospective effectiveness assessment relief provided by the Phase 1 amendments.
<b>Groups of items</b>	When amending the hedge relationships for groups of items, hedged items are allocated to sub-groups based on the benchmark rate being hedged, and the benchmark rate for each sub-group is designated as the hedged risk.
<b>Risk components – separately identifiable requirement</b>	An alternative benchmark rate designated as a non-contractually specified risk component, that is not separately identifiable at the date when it is designated, is deemed to have met the requirements at that date if the entity reasonably expects that it will meet the requirements within a period of 24 months from the date of first designation. The 24-month period will apply to each alternative benchmark rate separately. The risk component will, however, be required to be reliably measurable.

*Additional PSAK 60 disclosures related to IBOR reform*

The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform

**Effective date and transition**

These amendments should be applied for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

## Amendments to PSAK 73 'Lease' – Related rent concessions

Transition Provision: Retrospective

### Issues

In many territories, rent concessions have been, and continue to be, provided to lessees as a result of the ongoing COVID-19 pandemic. Such concessions have taken a variety of forms, including payment holidays and deferral of lease payments for a period of time, sometimes followed by increased rent payments in future periods. PSAK 73 contains requirements that apply to such rent concessions.

In May 2020, the DSAK published an amendment to PSAK 73 that provided lessees (but not lessors) with relief in the form of an *optional* practical expedient from assessing whether a rent concession related to COVID-19 is a lease modification (the 'May 2020 amendment'). Lessees could elect to account for rent concessions in the same way as if they were not lease modifications. In many cases, the practical expedient resulted in accounting for the concession as a variable lease payment.

The practical expedient in the May 2020 amendment applied only to rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions were met:

1. the change in lease payments resulted in a revised consideration for the lease that was substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2. any reduction in lease payments affected only payments due on or before 30 June 2021; and
3. there was no substantive change to other terms and conditions of the lease.

On 31 March 2021, in light of the ongoing pandemic, the DSAK published an additional amendment to extend the date in (b) from 30 June 2021 to 30 June 2022 (the 'March 2021 amendment').

If a lessee already applied the practical expedient in the May 2020 amendment, it is required to continue to apply the practical expedient consistently, to all lease contracts with similar characteristics and in similar circumstances, using the March 2021 amendment. If a lessee did not apply the practical expedient in the May 2020 amendment to eligible lease concessions, it is prohibited from applying the practical expedient in the March 2021 amendment.

The March 2021 amendment is to be applied retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings at the beginning of the annual reporting period in which the lessee first applies the amendment.

### What is the impact and for whom?

Given the pervasiveness of the ongoing pandemic and the measures taken by many governments on social distancing, many lessees were granted rent concessions. These amendments are applicable if a lessee applied the practical expedient in the May 2020 amendment. If a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so. Neither amendment, however, makes any changes to lessor accounting.

## Effective Date

The March 2021 amendment is effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted – including in financial statements not yet authorised for issue at 31 March 2021. In practical terms, this means that a lessee that previously applied the practical expedient in the May 2020 amendment is permitted, but not required, to apply the March 2021 amendment immediately when it is issued.



# Annual Improvement 2021

As part of maintenance and improvement of PSAK, the following table provides summary information on the annual improvements of PSAKs that are effective for annual periods beginning on or after 1 January 2021. 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 1, 'Presentation of financial statements'	Some changes in paragraph 123 regarding consideration made by management in process of applying accounting policies that significantly affect the amounts it recognises in financial statements.
PSAK 13, 'Investment property'	Paragraph 75 (b) regarding disclosure of applying fair value model has been deleted.
PSAK 48, 'Impairment of assets'	Adjustment in paragraph 04 about the scope of impairment assets and delete the difference with IFRS regarding difference with IAS 36 paragraph 04(a)
PSAK 66. 'Joint arrangement'	Adjustment in paragraph 25, PP11, PP33A(b) and its footnotes, C12 and C14 regarding reference to PSAK 71: Financial instrument.
ISAK 16, 'Service concession arrangement'	Adjustment in several paragraphs in illustrative example to be consistent with PSAK 72: Revenue from contract with customer.

## APPENDIX—Forthcoming Requirements

Title	Key Requirements	Effective Date
Amendment to PSAK 22: Business Combination regarding References to the Financial Reporting Conceptual Framework	Minor amendments were made to PSAK 22 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PSAK 57 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 30 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022 and early adoption is allowed.
Amendment to PSAK 57: Provisions, Contingent Liability and Contingent Asset on Losing Contract—Costs to Fulfill the Contract	The amendment to PSAK 57 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022 and early adoption is allowed.
Annual improvement 2020	Annual improvements make minor amendments to PSAK 71, 'Financial instruments', PSAK 64, 'Agriculture' and the Illustrative Examples accompanying PSAK 73, 'Leases'.	1 January 2022 and early adoption is allowed.
Amendments to PSAK 1, 'Presentation of financial statements' – Classification of liabilities as current or non-current	The narrow-scope amendment clarifies classification of liabilities as current or non-current, depending on the rights that exist at the end of the reporting period. The amendment also clarifies what PSAK 1 means when it refers to the settlement of a liability.	1 January 2023 and early adoption is allowed.
Amendment to PSAK 16: Fixed Assets regarding Output Before Intended Use	The amendment to PSAK 16 Fixed Assets prohibits an entity from deducting from the cost of an item of Fixed assets any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is testing whether the asset is functioning properly when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.  Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2023 and early adoption is allowed.
PSAK 74: Insurance Contracts	This standard will make financial statements of insurance companies comparable with other industries and require a clear separation between income generated from the insurance business and income from investment activities in order to make financial statement information transparent for all stakeholders.	1 January 2025 and early adoption is allowed.

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