

PSAK 71- 73 implementation

# State of Readiness



# Executive Summary

Starting January 1, 2020, three new accounting standards for “Financial instruments” (PSAK 71), “Revenue from contracts with customers” (PSAK 72) and “Leases” (PSAK 73), known as the “Big 3 Standards”, are required to be applied by companies reporting under Indonesian financial accounting standards. Do Indonesian companies ready for the Big 3 Standards?

To help answer this question, we conducted an independent research on the state of readiness of the implementation of the Big 3 Standards. We gathered information from the interim financial statements published by companies included in the KOMPAS 100 index as of August 2020. This index is made up of a group of top one hundred publicly listed companies representing multiple industries in Indonesia. The following are our notable observations:

1. Almost one third of the companies surveyed have still not adopted the Big 3 Standards in their interim financial reports for 2020 even though the standards should have become effective starting 1 January 2020;
2. Companies are reporting a higher balance of allowance for doubtful accounts (AFDA) for their financial assets under the new PSAK 71. Higher AFDA translates to higher bad debt provision expense and lower income. In fact, on the date of PSAK 71 adoption, more than 10% of companies reported a reduction in their companies' opening retained earnings by more than 6%. Most companies, however, have not considered the impacts of the economic slowdown caused by the Covid-19 pandemic, which is expected to contribute to an even larger increase in AFDA and bad debt provisions;
3. PSAK 72 introduces the biggest impact on telecommunications, property and real estate industries. For example, several developers are deferring the timing of revenue recognition to a later period. Revenues are recognised only after the companies have fully satisfied all their performance obligations stated in the customers contracts; and
4. Finally, practically almost all types of leases now need to be capitalised on a lessee's balance sheet. As a result, we are seeing an increase in the total amount of debt and leverage ratios reported by companies. The top three companies we observed are reporting increases in debt as high as 56%, 72% and 122% respectively. Companies need to take pro-active measures to manage the financial impacts introduced by PSAK 73, including those that can be incorporated into treasury strategies.

We conducted this study to gauge the state of readiness of Indonesian companies adopting the Big 3 standards in general. Unfortunately, we are still seeing a substantial number of companies that are struggling with implementation as late as August 2020. Most companies are still evaluating the effects of the economic downturn caused by Covid-19 on their financial reporting process. We therefore encourage all companies to step up their effort to ensure compliance given we only have a few months left until companies must report the full effects of the Big 3 Standards in their annual reports.

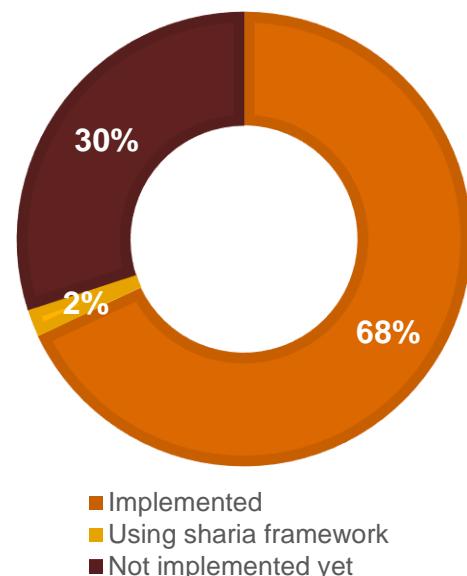
\* Because not all companies have disclosed their second quarter interim financial results, the study uses data published in the first interim financial statements for comparative purposes.



# PSAK 71 “Financial instruments”

## PSAK 71 - state of readiness

**30% of companies surveyed still have not implemented the standard.** 2% companies do not need to use PSAK 71 because they are either participating in the insurance industry, for which temporary relief from PSAK 71 is provided, or companies reporting under the Sharia accounting framework. It's quite **alarming** to see almost **one third of companies surveyed are not yet PSAK 71 compliant** in their interim financial statements



**100%**

## Selected transitional approach

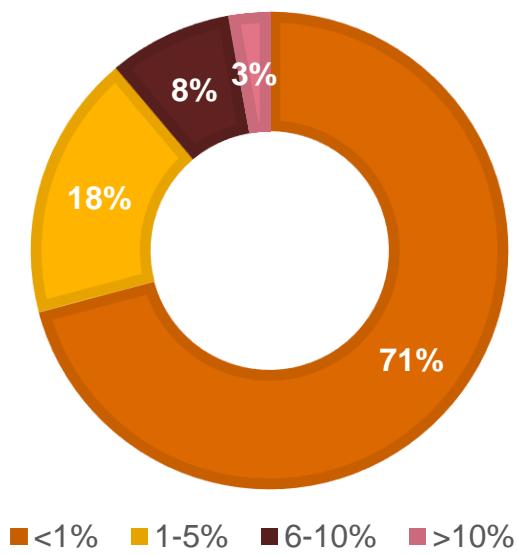
The Standard does not require companies to restate the prior period, unless it is possible without the use of hindsight and the restated financial statements reflect all of the requirements of PSAK 71.

All companies that have implemented PSAK 71 elected not to restate the prior period for the initial application of the standard. The effects arising from implementation of PSAK 71 are therefore adjusted to the companies' opening retained earnings.

## Impact to retained earnings

To gauge the impact of the new expected credit loss (ECL) model, we quantified the magnitude of the ECL adjustment to a company's beginning retained earnings balance at the initial date of adoption (e.g. 1 January 2020).

Overall, companies are reporting a higher balance of allowance for doubtful accounts (AFDA) for their financial assets under the new PSAK 71. The chart shows that **11% companies** report a **reduction to opening retained earnings by more than 6%** due to the higher AFDA of the new ECL model.



Other than banks and financial institutions, companies operating in infrastructure, utilities and transportation, property and real estate report a higher degree of ECL adjustments due to the long term nature of their projects. In fact, one company reports ECL adjustment as high as 53% of its retained earnings balance.

10% of the companies surveyed report changes to the way they determine classification and measurement of financial assets. The biggest impact comes from the new emphasis in PSAK 71 that demands a change from the cost to the fair value method to measure investments in non-quoted equity instruments.

Companies are reporting various degree of impact from this change; most have upward adjustments (i.e. fair value increase) when they change from the cost to the fair value method. One company reports an increase as high as 175% in its investment value compared to the amount previously recorded under the cost method.

**“All companies experienced an increase of provision of impairment of receivables. Only ten companies had changes in classification and measurement”**

Changes	Number of implementing companies	Highest impact
Classification & measurement	10	175%
Impairment of receivables	68	53%

This study was conducted using interim financial statements for the period ended 31 March 2020. The data reported therein has not reflected post-COVID condition. The companies economics might be impacted by the Government's decision in responding to the pandemic. The Company's assumptions might also be changed due to that matter. Considering these matters, we expect an upward trend in provision for impairment of receivables.

## Key Points

Companies are reporting higher bad debt provision expense due to the new ECL model. Most companies, however, have not considered the impacts of the economic slowdown caused by the Covid-19 pandemic, which is expected to contribute to even more increase bad debt provisions.

## PSAK 72 “Revenue from contracts with customers”

### PSAK 72 - state of readiness

Only 69% of companies surveyed are reporting the results of PSAK 72, **which means 31% of companies still have not implemented** the standard. It's quite alarming to see almost one third of companies surveyed are not yet PSAK 72 compliant in their interim financial statements.

**69%**

### Selected transitional approach

**99%**

Almost all companies, that have implemented



PSAK 72, elected to use the modified retrospective approach for the initial application of the standard.

The standard is applied to all outstanding (open) contracts starting from 1 January 2020 onward.

### Three industries with significant impact of PSAK 72

1. Property, real estate, and construction
2. Telecommunication
3. Pharmaceutical

We observed that top three accounting issues introduced by PSAK 72 that are affecting many companies are:

### Identification of distinct performance obligations in bundled offerings

PSAK 72 introduces a new framework for companies to identify the number of distinct performance obligations in a customer contract. Each of the goods and services bundled in a package offering are now likely to be identified as distinct performance obligations within the context of PSAK 72. This new requirement has driven many companies to re-evaluate the timing of, and amount of revenue allocated to, each of the goods and services sold to customers. We observed the telecommunication, consumer products and automotive industries are significantly impacted by this new requirement.





## Timing of revenue recognition

There are two recognition models in PSAK 72. Revenue can be recognised: (i) at a-point-in-time; or (ii) over-time as companies are satisfying their performance obligations to customers. A new principle-based approach is used to determine whether a-point-in-time or over-time recognition model is appropriate. This new concept is affecting many real estate & property companies. We observed that a number of companies are now deferring the timing of revenue recognition for the sale of properties to a latter period.

## Significant financing component

We observed that construction contracts often contain a financing component because payments by customers can occur either significantly before or significantly after performance. This timing difference can benefit either the customers, for companies providing friendly financing terms to the customers, or the companies, where the customers are financing the companies' activities by making payments in advance of performance.

The amount of revenue recognised differs from the amount of cash received from the customers where a significant financing component exists. Revenue recognised will be less than cash received for payments that are received in arrears of performance, as a portion of the consideration received will be recorded as interest income. Revenue recognised will exceed the cash received for payments that are received in advance of performance, as interest expense will be recorded and increase the amount of revenue recognised.



## Key Points

Although PSAK 72 may not significantly change the amounts of revenues recognised for many companies, we want to remind companies not to lose sight on the importance of producing quality disclosures. Unfortunately, we are still observing many boiler-template disclosures that do not clearly convey the nature, amount, timing and uncertainty of revenue arising from contracts with customers.

Many companies are concluding no significant impacts identified from PSAK 72 without providing readers with detail reasons supporting that conclusion. The standard requires companies to disclose qualitative and quantitative information about their contracts with customers, the significant judgments, and any assets recognised from the costs to obtain or fulfil contracts with customers.

## PSAK 73 “Leases”

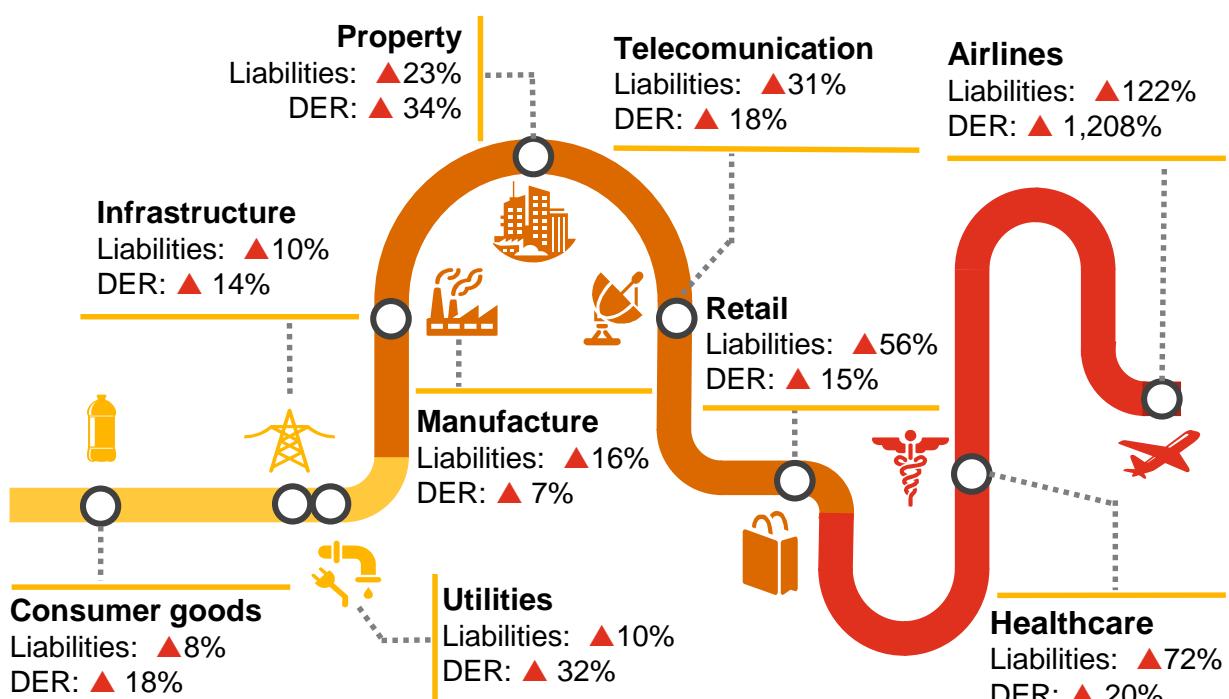
### PSAK 73 - state of readiness

Based on our research, **27% of companies surveyed still have not implemented**

the standard. 2% companies do not need to apply PSAK 73 because they apply sharia accounting framework in their financial statements.

**71%**

### Top Ten Companies with Highest Impact



### Selected transitional approach

From 71 implementing companies, we found that there are two companies who elected to apply PSAK 73 in full retrospective. Other companies elected not to choose full retrospective for initial application of PSAK 73.

**98%**



## Lease Liabilities

From 71 implementing companies, we found that the impact to total liability varies from less than 1% to 122% increase in liabilities. The biggest impacts were shown in several industries, such as Airlines, Healthcare, and Retail. This was due to the number and types of leased assets.



Our observation covers nine retail companies that shows various increase in liabilities, from 1% to 56%. These were mostly due to space rent.



Healthcare also have a similar experience. In delivering their services, spacious area or building are required. This leads to 72% increase in liabilities.



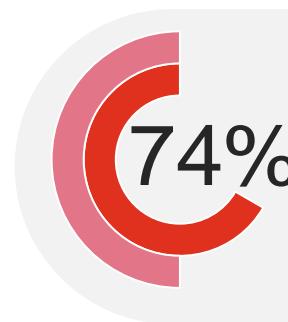
Airline company has large number of lease of aircraft and buildings whose amounts are significant.



Previously, the leases were mostly operating lease. With the implementation of PSAK 73, these leases are quantified and liabilities are recognized in the balance sheet.

## Debt-to-Equity Ratio

Another critical item that will be impacted is Debt-to-Equity ratio (DER). This ratio is widely used for various analysis by various parties. We isolate the change only to lease liability while other items remain constant.

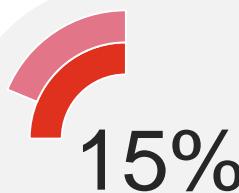


### Airlines

Airline company shows the biggest increase in DER due to the capitalization of new lease liability for aircrafts.

## Healthcare

Healthcare company shows an increase in DER due to the capitalization of lease liabilities for specialized equipment.



### Retail

Retail company shows a more similar trend to Healthcare industry due to the capitalization of lease liabilities for retail spaces

## Key Points

Every company is impacted by this new leasing standard because PSAK 73 fundamentally changes the way lessees account for their operating leases. It may be no surprise that many companies underestimated the effort, started too late and have yet to realise any business benefits beyond compliance.

After a strong focus by companies to ensure compliance in the first year of implementation, management needs to start looking beyond transition. We encourage companies to turn their attention to optimising processes to extract business value for their organisations. For example, finance and treasury team should maximise the use of technology to build pro-forma financial information post PSAK 73 world to help the organization better predict future leverage ratios, cost of funds, EBITDA level, etc.

## Contact us



**Irwan Lau**  
Partner  
[irwan.lau@pwc.com](mailto:irwan.lau@pwc.com)



**Djohan Pinnarwan**  
Partner  
[djohan.pinnarwan@pwc.com](mailto:djohan.pinnarwan@pwc.com)

**Dwi Jayanti**  
Senior Manager  
[dwi.jayanti@pwc.com](mailto:dwi.jayanti@pwc.com)

**Albert Hendrata**  
Manager  
[albert.hendrata@pwc.com](mailto:albert.hendrata@pwc.com)

**Candraputra Patrick**  
Manager  
[candraputra.patrick@pwc.com](mailto:candraputra.patrick@pwc.com)

**Gayatri Permatasari**  
Manager  
[gayatri.permatasari@pwc.com](mailto:gayatri.permatasari@pwc.com)

**Raisa Lestari**  
Manager  
[raisa.lestari@pwc.com](mailto:raisa.lestari@pwc.com)

**Tri Pandu**  
Manager  
[tri.pandu@pwc.com](mailto:tri.pandu@pwc.com)

**Elina Mihardja**  
Senior Manager  
[elina.mihardja@pwc.com](mailto:elina.mihardja@pwc.com)

**Arryu Amin**  
Manager  
[arryu.amin@pwc.com](mailto:arryu.amin@pwc.com)

**Dania Mulandari**  
Manager  
[dania.mulandari@pwc.com](mailto:dania.mulandari@pwc.com)

**Jessica Lim**  
Manager  
[jessica.lim@pwc.com](mailto:jessica.lim@pwc.com)

**Robby Jubinsar**  
Manager  
[robby.jubinsar@pwc.com](mailto:robby.jubinsar@pwc.com)

**Wenny Sugianto**  
Manager  
[Wenny.sugianto@pwc.com](mailto:Wenny.sugianto@pwc.com)

**Ponco Widagdo**  
Senior Manager  
[ponco.widagdo@pwc.com](mailto:ponco.widagdo@pwc.com)

**Asyraf Abdurrasyid**  
Manager  
[asyraf.abdurasyid@pwc.com](mailto:asyraf.abdurasyid@pwc.com)

**Gabriella Senjaya**  
Manager  
[gabriella.s.senjaya@pwc.com](mailto:gabriella.s.senjaya@pwc.com)

**Martinus Budiman**  
Manager  
[martinus.budiman@pwc.com](mailto:martinus.budiman@pwc.com)

**Stella Tanasa**  
Manager  
[stella.tanasa@pwc.com](mailto:stella.tanasa@pwc.com)

[www.pwc.com/id](http://www.pwc.com/id)

 [PwC Indonesia](#)  
 [@PwC\\_Indonesia](#)



© 2020 Tanudiredja, Wibisana, Rintis & Rekan. All rights reserved. PwC refers to the Indonesian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.