A Practical Guide to the New and Revised Indonesian Financial Standards for 2022

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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 2022. It also contains an overview of the changes in reporting requirements, which may then be useful for the entities' understanding of the potential impacts to its process, system, or business and the specific considerations to be made.

There is no new accounting standard issued by DSAK IAI, which is effective as at 1 January 2022. However, there are several amendments. DSAK-IAI has published an amendment to PSAK 57 - Provisions, contingent liabilities and contingent assets regarding clarification of the meaning of 'costs to fulfil a contract' in determining the measurement of onerous contracts. Furthermore, DSAK-IAI has also published amendments to PSAK 22 - Business combination regarding clarification of interaction between PSAK 22, PSAK 57, ISAK 30, and the 2019 Conceptual Framework for Financial Reporting. The amendments of PSAK 57 and PSAK 22 are effective as at 1 January 2022. Lastly, DSAK-IAI has published amendments to PSAK 16 - Property, plant, and equipment ("PPE") regarding the accounting for proceeds received from selling the items produced while the entity is preparing the asset for its intended use. This amendment will be effective as at 1 January 2023, early adoption is permitted.

DSAS-IAI also has issued a new sharia accounting standard, PSAK 107 (Revised 2021) - Ijarah which will be effective as of 1 January 2023. This new sharia standard will not be covered in this publication.

In addition, as previously communicated, the adoption of IFRS 17, 'Insurance Contracts', will take into effect retrospectively in Indonesia beginning the annual reporting period after 1 January 2025. Early adoption is permitted.

Lastly, DSAK - IAI also has ratified Standar Akuntansi Keuangan Entitas Privat (SAK EP) on 30 June 2021, which adopts IFRS for SMEs with several modifications to align with conditions in Indonesia. SAK EP will replace SAK Entitas Tanpa Akuntabilitas Publik (ETAP) and be effectively applied for annual reporting period as of or after 1 January 2025. Early adoption is permitted as of or after 1 January 2022.

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" - Reference to the Conceptual Framework

Transition Provision: Retrospective

Issue

DSAK-IAI has updated PSAK 22, to refer to the 2019 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, PSAK 22 referred to the 2016 Conceptual Framework for Financial Reporting. In addition, the amended definition PSAK 22 clarifies interactions between PSAK 22, PSAK 57, and ISAK 30.

A new exception in PSAK 22 has been added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying PSAK 22 should instead refer to PSAK 57 or ISAK 30, rather than the 2019 Conceptual Framework for Financial Reporting. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under PSAK 57. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain.

The amendment also clarified that the acquirer should not recognise contingent assets, as defined in PSAK 57, at the acquisition date.

Impact

The new exception rules in PSAK 22 will require the acquirer entity to recognise provision and contingent liabilities at the acquisition date in accordance with the recognition criteria in PSAK 57 or ISAK 30. Therefore, the assumed liabilities amount in a business combination accounting will be limited to those that only complies with PSAK 57 or ISAK 30 requirements. The contingent assets should still not be recognised.

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 2022. 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 57 “Provisions, contingent liabilities and contingent assets” – Onerous contracts – cost of fulfilling a contract

Transition Provision: Retrospective

Issue

PSAK 57 defines an onerous contract as one in which the unavoidable costs of meeting the entity’s obligations exceed the economic benefits to be received under that contract. Unavoidable costs are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of ‘costs to fulfil a contract’.

The amendment explains that the direct cost of fulfilling a contract comprises:

- the incremental costs of fulfilling that contract (for example, direct labour and materials); and
- an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PPE used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

Impact

The amendment could result in the recognition of more onerous contract provisions, because previously some entities only included incremental costs in the costs to fulfil a contract.

Effective date and transition

An entity should apply those amendments to contracts for which it has not yet fulfilled all of its obligations at the beginning of the annual reporting period on or after 1 January 2022. The entity should not restate comparative information. The entity should recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity at the date of initial application

Annual improvement

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 2022, prospectively. 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 71, 'Financial instruments'	The amendment to PSAK 71 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test. In addition, this amendment also clarifies the accounting treatment for those fees in the condition for the modification resulting in derecognition and does not meet derecognition of financial liabilities If the modification does not result in derecognition of financial liabilities, those fees should be included in the effective interest rate calculation. If the modification results in derecognition of initial financial liabilities, those fees are charged directly to profit or loss.
PSAK 73, 'Leases'	DSAK- IAI has amended Illustrative Example 13 that accompanies PSAK 73 to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
PSAK 69,' Agriculture'	DSAK - IAI has removed the requirement for entities to exclude cash flows for taxation when measuring fair value under PSAK 69, 'Agriculture'. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

APPENDIX—Forthcoming requirements

Title	Key Requirements	Effective Date
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. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendment also clarifies what PSAK 1 means when it refers to the settlement of liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management’s intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in PSAK 25 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023 and early adoption is allowed. *) *Initially the IAS 1 amendment was planned to be effective on 1 January 2023. However, the IASB tentatively decided to require entities to apply the amendments for annual reporting periods beginning on or after 1 January 2024. DSAK-IAI has not formally updated the effective date of amendment of PSAK 1. However, it is expected to align with the amendment of IAS 1*
Amendment to PSAK 16: Fixed Assets regarding Proceeds 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.
Amendment to PSAK 46: Income tax regarding Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendment to PSAK 46 requires an entity to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: ● right-of-use assets and lease liabilities, and ● decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. PSAK 46 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.	1 January 2023 and early adoption is allowed.

Title	Key Requirements	Effective Date
Amendments to PSAK 1, ‘Presentation of financial statements’ and PSAK 25,’ Accounting policies, changes in accounting estimates and errors’: Disclosure of Accounting Policies	The amendment to PSAK 1, ‘Presentation of Financial Statements’, requires companies to disclose their *material* rather than their *significant* accounting policies. The amendments define what is ‘material accounting policy information’ and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.	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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