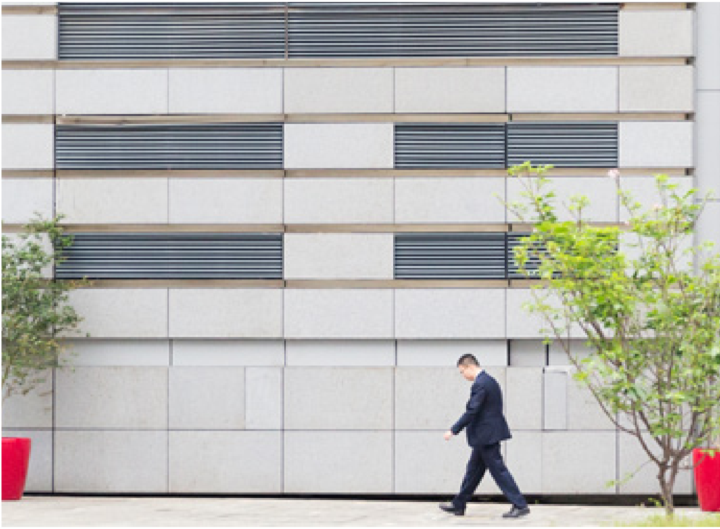
PSAK Pocket guide
2018



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Introduction

This pocket guide provides a summary of the recognition, measurement and presentation requirements of Indonesia financial accounting standards (PSAK) applicable for financial statements beginning period on or after 1 January 2018, unless otherwise indicated. However, key accounting changes that will be effective after 1 January 2018 are also partially covered in this document. It does not address in detail the disclosure requirements under those standards.

The information in this guide is arranged in six sections:

- Accounting rules and principles.
- Balance sheet and related notes.
- Consolidated and separate financial statements.
- Other subjects.
- Industry-specific topics

Contents

Accounting rules and principles

1. Introduction

In order to further align the Indonesian Financial Accounting Standards (IFAS) with the global standards, International Financial Reporting Standards (IFRS), the local accounting standard board – Indonesian Financial Accounting Standards Board (DSAK-IAI) adopts several standard amendments and annual improvements. In 2017,as a convergence to IFRS, the DSAK-IAI has issued three big standards, PSAK 71 Financial Instruments, PSAK 72 Revenues from Contracts with Customers and PSAK 73 Leases (equivalent standards of Big 3 – IFRS 9 Financial Instruments, IFRS 15 Revenues from Contracts with Customers, and IFRS 16 Leases, respectively), and two interpretations.

The convergence process will continue with adopting relatively new standards and interpretations of the standards, such as and later on IFRS 17 Insurance Contracts. DSAK-IAI works hard to ensure sufficient transition period for new standards and minimize the gap between the new IFRSs and new local standards. With the effectivity of the IFRS 9 and IFRS 15 in 2018, there is two-year gap between local standards applied in Indonesia and IFRS.

2. Accounting principles and applicability of PSAK

DSAK-IAI has the authority to set Indonesian Financial Accounting Standards (IFAS) and to approve interpretations of those standards.

IFASs are intended to be applied by profit-orientated entities. These entities' financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public. A complete set of financial statements includes a:

- statement of financial position;
- statement of comprehensive income;
- statement of cash flows;
- a description of accounting policies; and
- notes to the financial statements.
- statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements.

The concepts underlying accounting practices under IFAS are set out in the DSAK-IAI's 'Framework for the Preparation and Presentation of Financial Standard (the Framework).

3. Presentation of financial statements – PSAK 1, PSAK 58

The objective of financial statements is to provide information that is useful in making economic decisions. The objective of PSAK 1 'Presentation of Financial Statements' is to ensure comparability of presentation of that information with the entity's financial statements of previous periods and with the financial statements of other entities.

Financial statements are prepared on a going concern basis unless management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Management prepares its financial statements, except for cash flow information, under the accrual basis of accounting.

There is no prescribed format for the financial statements but there are minimum presentation and disclosure requirements. The implementation guidance to PSAK 1 contains illustrative examples of acceptable formats.

Financial statements disclose corresponding information for the preceding period (comparatives) unless a standard or interpretation permits or requires otherwise.

Statement of financial position

The statement of financial position presents an entity's financial position at a specific point in time. Subject to meeting certain minimum presentation and disclosure requirements, management uses its judgment regarding the form of presentation, such as whether to use a vertical or a horizontal format, which sub-classifications to present and which information to disclose on the face of the statement or in the notes.

The following items, as a minimum, are presented on the face of the balance sheet:

- Assets – property, plant and equipment; investment property; intangible assets; financial assets; investments accounted for using the equity method; biological assets; deferred tax assets; current tax assets; inventories; trade and other receivables; and cash and cash equivalents.
- Equity – issued capital and reserves attributable to the parent's owners; and non-controlling interest.
- Liabilities – deferred tax liabilities; current tax liabilities; financial liabilities; provisions; and trade and other payables.
- Assets and liabilities held for sale – the total of assets classified as held for sale and assets included in disposal groups classified as held for sale; and liabilities included in disposal groups classified as held for sale in accordance with PSAK 58, 'Non-current assets held for sale and discontinued operations'.

Current and non-current assets and current and non-current liabilities are presented as separate classifications in the statement unless presentation based on liquidity provides information that is reliable and more relevant.

Statement of profit or loss and other comprehensive income

The statement of comprehensive income presents an entity's performance over a specific period. An entity presents profit or loss, total other comprehensive income and comprehensive income for the period.

Entities have a choice of presenting this in a single statement or as two statements. The statement of comprehensive income under the single-statement approach includes all items of income and expense and includes each component of other comprehensive income classified by nature. Under the two statement approach, all components of profit or loss are presented in an income statement. The income statement is followed immediately by a statement of other comprehensive income which begins with the total profit or loss for the period and displays all components of comprehensive income.

Items to be presented in statement of profit or loss and other comprehensive income

The following items, as a minimum, are presented in the statement of comprehensive income:

- Revenue;
- Finance costs;
- Share of the profit or loss of associates and joint ventures accounted for using the equity method;
- Tax expense;
- A single figure for total of discontinued operations. This comprises the total of:
  - post-tax profit or loss of discontinued operations; and
  - the post-tax gain or loss recognised on the measurement to fair value less costs to sell (or on the disposal) of the assets or disposal group(s) constituting the discontinued operation.

Profit or loss for the period and total comprehensive income are allocated in the statement of comprehensive income to the amounts attributable to non-controlling interest and to the parent's owners.

Additional line items and sub-headings are presented in this statement when such presentation is relevant to an understanding of the entity's financial performance.

Material items

The nature and amount of items of income and expense are disclosed separately, where they are material. Disclosure could be in the statement or in the notes. Such income/expenses might include restructuring costs; write-downs of inventories or property, plant and equipment; litigation settlements; gains or losses on disposals of non-current assets.

Other comprehensive income

An entity shall present items of other comprehensive income to be grouped into those that will be reclassified subsequently to profit or loss and those that will not be reclassified. An entity shall disclose reclassification adjustments relating to components of other comprehensive income. The PSAK 1 amendments clarify that the entity's share of items of comprehensive income of associates and joint ventures is presented separately, analyzed into those items that will be not be reclassified subsequently to profit or loss and those that will be so reclassified when specific conditions are met.

An entity presents each component of other comprehensive income in the statement either (i) net of its related tax effects, or (ii) before its related tax effects, with the aggregate tax effect of these components shown separately.

Statement of changes in equity

The following items are presented in the statement of changes in equity:

- total comprehensive income for the period, showing separately the total amounts attributable to the parent's owners and to non-controlling interest;
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with PSAK 25, 'Accounting policies, changes in accounting estimates, and errors'; and
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
  - profit or loss;
  - other comprehensive income; and
  - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

The amounts of dividends recognized as distributions to owners during the period, and amounts per share, shall be disclosed.

Statement of cash flows

Cash flow statements are addressed in a separate summary dealing with the requirements of PSAK 2 'Cash flow statements'.

Notes to the financial statements

The notes are an integral part of the financial statements. Notes provide information additional to the amounts disclosed in the 'primary' statements. They include accounting policies and critical accounting estimates and judgments, disclosures on capital and puttable financial instruments classified as equity.

4. Accounting policies, accounting estimates and errors – PSAK 25 and ISAK 32

An entity follows the accounting policies required by PSAK that are relevant to the particular circumstances of the entity. However, for some situations, standards offer a choice; there are other situations where no guidance is given by PSAKs. In these situations, management should select appropriate accounting policies.

Management uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. Reliable information demonstrates the following qualities: faithful representation, substance over form, neutrality, prudence and completeness. If there is no PSAK standard or interpretation that is specifically applicable, management should consider the applicability of the requirements in PSAK on similar and related issues, and then the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework. Management may also consider the most recent pronouncements of other standard-setting bodies, other accounting literature and accepted industry practices, where these do not conflict with PSAK.

ISAK 32 'Interpretation on the definition and hierarchy of Indonesian Financial Accounting Standards' clarifies the definition and hierarchy of the financial accounting standards in accordance with PSAK. IFAS, as defined, includes those that are issued by Syariah Accounting Standard Board of IAI and those that are pronounced by the capital market regulators for entities under its supervision. ISAK 32 provides that if those standards and interpretations conflict with any PSAK/ ISAK, an explicit and unreserved statement of compliance with PSAK cannot be made. Thus, a different financial reporting framework should be used.

Accounting policies should be applied consistently to similar transactions and events (unless a standard permits or requires otherwise).

Changes in accounting policies

Changes in accounting policies made on adoption of a new standard are accounted for in accordance with the transition provisions (if any) within that standard. If a change in policy upon initial application of a new standard does not include specific transition provisions, or it is a voluntary change in policy, it should be accounted for retrospectively (that is, by restating all comparative figures presented) unless this is impracticable.

Issue of new/revised standards not yet effective

Standards are normally published in advance of the required implementation date. In the intervening period, where a new/ revised standard that is relevant to an entity has been issued but is not yet effective, management discloses this fact. It also provides the known or reasonably estimable information relevant to assessing the impact that the application of the standard might have on the entity's financial statements in the period of initial recognition.

Changes in accounting estimates

An entity recognises prospectively changes in accounting estimates by including the effects in profit or loss in the period that is affected (the period of the change and future periods), except if the change in estimate gives rise to changes in assets, liabilities or equity. In this case, it is recognised by adjusting the carrying amount of the related asset, liability or equity in the period of the change.

Errors

Errors may arise from mistakes and oversights or misinterpretation of information.

Errors that are discovered in a subsequent period are prior-period errors. Material prior-period errors are adjusted retrospectively (that is, by restating comparative figures) unless this is impracticable (that is, it cannot be done, after 'making every reasonable effort to do so').

5. Fair value measurement – PSAK 68

PSAK 68 provides a common framework for measuring fair value when required or permitted by another PSAK. PSAK 68 defines fair value as “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” [PSAK 68 para 9]. The key principle is that fair value is the exit price from the perspective of market participants who hold the asset or owe the liability at the measurement date. It is based on the perspective of market participants rather than just the entity itself, so fair value is not affected by an entity’s intentions towards the asset, liability or equity item that is being fair valued.

A fair value measurement requires management to determine four things: the particular asset or liability that is the subject of the measurement (consistent with its unit of account); the highest and best use for a non-financial asset; the principal (or most advantageous) market; and the valuation technique. [PSAK 68 para PP02].

PSAK 68 addresses how to measure fair value but does not stipulate when fair value can or should be used.

6. Financial instruments – PSAK 50, PSAK 55, PSAK 60, and PSAK 71

Objectives and scope

Financial instruments are addressed in the following standards and interpretation:

- PSAK 60, 'Financial instruments: Disclosure', which deals with disclosures;
- PSAK 50, 'Financial instruments: Presentation', which deals with distinguishing debt from equity and with netting; and
- PSAK 55, 'Financial instruments: Recognition and measurement', which contains requirements for recognition and measurement.
- ISAK 26, 'Reassessment of embedded derivatives'
- ISAK 28, 'Extinguishing financial liabilities with equity instruments'
- PSAK 71 'Financial Instrument' replaces PSAK 55 beginning on or after 1 January 2020. However for some preparers PSAK 55 will remain relevant (for example insurers that apply the PSAK 62, 'Insurance contracts', deferral of PSAK 71). On transition to PSAK 71 entities may also continue to apply PSAK 55 hedge accounting.

The objective of the standards is to establish requirements for all aspects of accounting for financial instruments, including distinguishing debt from equity, netting, recognition, derecognition, measurement, hedge accounting and disclosure.

The standards' scope is broad. The standards cover all types of financial instrument, including receivables, payables, investments in bonds and shares (except for interests in subsidiaries, associates and joint ventures), borrowings and derivatives. They also apply to certain contracts to buy or sell non-financial assets (such as commodities) that can be net-settled in cash or another financial instrument.

Nature and characteristics

Financial instruments include a wide range of assets and liabilities, such as trade debtors, trade creditors, loans, finance lease receivables and derivatives. They are recognised and measured according to PSAK 55's requirements and are disclosed in accordance with PSAK 60 and, for fair value disclosures, PSAK 68.

Financial instruments represent contractual rights or obligations to receive or pay cash or other financial assets. Non-financial items have a more indirect, non-contractual relationship to future cash flows.

A financial asset is cash; a contractual right to receive cash or another financial asset; a contractual right to exchange financial assets or liabilities with another entity under conditions that are potentially favourable; or an equity instrument of another entity.

A financial liability is a contractual obligation to deliver cash or another financial asset; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

An equity instrument is any contract that evidences a residual interest in the entity's assets after deducting all of its liabilities. IAS 32 provides guidance for an issuer on distinguishing between a financial liability and equity.

A derivative is a financial instrument that derives its value from an underlying price or index; requires little or no initial net investment; and is settled at a future date.

Classification and measurement

The way that financial instruments are classified under PSAK 55 drives how they are subsequently measured and where changes in measurement are accounted for.

There are four classes of financial asset (under PSAK 55): fair value through profit or loss, held to maturity, loans and receivables and available for sale. The factors to take into account when classifying financial assets include:

- Are the cash flows arising from the instrument fixed or determinable? Does the instrument have a maturity date?
- Are the assets held for trading? Does management intend to hold the instruments to maturity?

- Is the instrument a derivative or, does it contain an embedded derivative?
- Is the instrument quoted on an active market?
- Has management designated the instrument into a particular classification at inception?

Financial liabilities are at fair value through profit or loss if they are designated at initial recognition as such (subject to various conditions), if they are held for trading or if they are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). They are otherwise classified as 'other financial liabilities'.

Financial assets and liabilities are measured either at fair value or at amortised cost, depending on their classification. Changes are taken to either the income statement or to other comprehensive income.

Reclassification of financial assets from one category to another is permitted under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification.

Financial liabilities and equity

The classification of a financial instrument by the issuer as either a liability (debt) or equity can have a significant impact on an entity's gearing (debt-to-equity ratio) and reported earnings. It could also affect the entity's debt covenants.

The critical feature of a liability is that under the terms of the instrument, the issuer is or can be required to deliver either cash or another financial asset to the holder; it cannot avoid this obligation. For example, a debenture under which the issuer is required to make interest payments and redeem the debenture for cash is a financial liability.

An instrument is classified as equity when it represents a residual interest in the issuer's assets after deducting all its liabilities; or, put another way, when the issuer has no obligation under the terms of the instrument to deliver cash or other financial assets to another entity. Ordinary shares or common stock where all the payments are at the discretion of the issuer are examples of equity of the issuer.

In addition, the following types of financial instrument are accounted for as equity, provided they have particular features and meet specific conditions:
- Puttable financial instruments (for example, some shares issued by co-operative entities and some partnership interests).

- Instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some shares issued by limited life entities).

The classification of the financial instrument as either debt or equity is based on the substance of the contractual arrangement of the instrument rather than its legal form. This means, for example, that a redeemable preference share, which is economically the same as a bond, is accounted for in the same way as a bond. The redeemable preference share is therefore treated as a liability rather than equity, even though legally it is a share of the issuer.

Other instruments may not be as straightforward. An analysis of the terms of each instrument in light of the detailed classification requirements is necessary, particularly as some financial instruments contain both liability and equity features. Such instruments, for example, bonds that are convertible into a fixed number of equity shares, are accounted for as separate liability and equity (being the option to convert if all the criteria for equity are met) components.

The treatment of interest, dividends, losses and gains in the income statement follows the classification of the related instrument. If a preference share is classified as a liability, its coupon is shown as interest. However, the discretionary coupon on an instrument that is treated as equity is shown as a distribution within equity.

ISAK 28, clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

Embedded derivatives

Some financial instruments and other contracts combine a derivative and a non-derivative in a single contract. The derivative part of the contract is referred to as an ‘embedded derivative’. Its effect is that some of the contract’s cash flows vary in a similar way to a stand-alone derivative. For example, the principal amount of a bond may vary with changes in a stock market index. In this case, the embedded derivative is an equity derivative on the relevant stock market index.

Embedded derivatives that are not ‘closely related’ to the rest of the contract are separated and accounted for as stand-alone derivatives (that is, measured at fair value, generally with changes in fair value recognised in profit or loss). An embedded derivative is not ‘closely related’ if its economic characteristics and risks are different from those of the rest of the contract. PSAK 55 sets out many examples to help determine when this test is (and is not) met.

Analysing contracts for potential embedded derivatives is one of the more challenging aspects of PSAK 55.

Recognition and derecognition

Recognition

Recognition issues for financial assets and financial liabilities tend to be straightforward. An entity recognises a financial asset or a financial liability at the time it becomes a party to a contract.

Derecognition

Derecognition is the term used for ceasing to recognise a financial asset or financial liability on an entity's statement of financial position. These rules are more complex.

Assets

An entity that holds a financial asset may raise finance using the asset as security for the finance, or as the primary source of cash flows from which to repay the finance. The derecognition requirements of PSAK 55 determine whether the transaction is a sale of the financial assets (and therefore the entity ceases to recognise the assets) or whether finance has been secured on the assets (and the entity recognises a liability for any proceeds received). This evaluation might be straightforward. For example, it is clear with little or no analysis that a financial asset is derecognised in an unconditional transfer of it to an unconsolidated third party, with no risks and rewards of the asset being retained.

Conversely, derecognition is not allowed where an asset has been transferred, but substantially all the risks and rewards of the asset have been retained through the terms of the agreement. However, the analysis may be more complex in other cases. Securitisation and debt factoring are examples of more complex transactions where derecognition will need careful consideration.

Liabilities

An entity may only cease to recognise (derecognise) a financial liability when it is extinguished – that is, when the obligation is discharged, cancelled or expired, or when the debtor is legally released from the liability by law or by the creditor agreeing to such a release.

Entities frequently negotiate with bankers or bond-holders to amend or cancel existing debt and replace it with new debt with the same lender on different terms. PSAK 55 provide guidance to distinguish between the settlement or extinguishment of debt that is replaced by new debt and the restructuring or modification of existing debt. The distinction is based on whether or not the new debt has substantially different terms from the old debt.

Alternatively, an entity might negotiate with its third party lenders to exchange existing debt for equity. In these circumstances, the difference between the carrying amount of the financial liability extinguished and the fair value of the equity issued is recognised in the income statement.

Measurement of financial assets and financial liabilities

All financial assets and financial liabilities are measured initially at fair value under PSAK 55 (plus transaction costs, for financial assets and liabilities not at fair value through profit or loss). The fair value of a financial instrument is normally the transaction price – that is, the amount of the consideration given or received. However, in some circumstances, the transaction price may not be indicative of fair value. However, PSAK permits departure from the transaction price only if fair value is evidenced by a quoted price in an active market for an identical asset or liability (that is, a Level 1 input) or based on a valuation technique that uses only data from observable markets.

The measurement of financial instruments after initial recognition depends on their initial classification. Loans and receivables and held-to-maturity investments are measured at amortised cost. The amortised cost of a financial asset or financial liability is measured using the 'effective interest method'.

Available-for-sale financial assets are measured at fair value, with changes in fair value recognised in other comprehensive income. For available-for-sale debt instruments, interest is recognised in income using the 'effective interest method'. Dividends on available-for-sale equity securities are recognised in profit or loss as the holder becomes entitled to them.

Derivatives (including separated embedded derivatives) are measured at fair value. All fair value gains and losses are recognised in profit or loss except where the derivatives qualify as hedging instruments in cash flow hedges on net investment hedges.

Financial liabilities are measured at amortised cost using the effective interest method unless they are classified at fair value through profit or loss. There are some exceptions such as loan commitments and financial guarantee contracts.

Financial assets and financial liabilities that are designated as hedged items may require further adjustments under the hedge accounting requirements. See topic summary hedge accounting.

In rare circumstances, unquoted equity instruments whose fair values cannot be measured reliably, or derivatives linked to and that must be settled by the delivery of such unquoted equity instruments that cannot be measured reliably, are measured at cost.

All financial assets are subject to review for impairment, except those measured at fair value through profit or loss. Where there is objective evidence that such a financial asset may be impaired, the impairment loss is calculated and recognised in profit or loss.

Hedge accounting

'Hedging' is the process of using a financial instrument (usually a derivative) to mitigate all or some of the risk of a hedged item. 'Hedge accounting' changes the timing of recognition of gains and losses on either the hedged item or the hedging instrument so that both are recognised in profit or loss in the same accounting period in order to record the economic substance of the combination of the hedged item and instrument.

To qualify for hedge accounting, an entity must (a) formally designate and document a hedge relationship between a qualifying hedging instrument and a qualifying hedged item at the inception of the hedge; and (b) both at inception and on an ongoing basis, demonstrate that the hedge is highly effective.

There are three types of hedge relationship:

- Fair value hedge – a hedge of the exposure to changes in the fair value of a recognised asset or liability, or a firm commitment.
- Cash flow hedge – a hedge of the exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction.
- Net investment hedge – a hedge of the foreign currency risk on a net investment in a foreign operation.

For a fair value hedge, the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in the income statement where it will offset the gain or loss on the hedging instrument.

For an effective cash flow hedge, gains and losses on the hedging instrument are initially included in other comprehensive income. The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and hedge item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within the profit or loss as ineffectiveness. Gains or losses deferred in other comprehensive income are reclassified to profit or loss when the hedged item affects the income statement. If the hedged item is the forecast acquisition of a non-financial asset or liability, the entity may choose an accounting policy of adjusting the carrying amount of the non-financial asset or liability for the hedging gain or loss at acquisition, or leaving the hedging gains or losses deferred in equity and reclassifying them to profit and loss when the hedged item affect profit or loss.

Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges.

Presentation

The presentation requirements for financial instruments are set out in PSAK 1 and PSAK 50. PSAK 1 requires management to present its financial assets and financial liabilities as current or non-current. PSAK 50 provides guidance on offsetting of financial assets and the financial liabilities. Where certain conditions are satisfied, the financial asset and the financial liability are presented on the balance sheet on a net basis.

Financial instruments – Disclosure

There have been significant developments in risk management concepts and practices in recent years. New techniques have evolved for measuring and managing exposures to risks arising from financial instruments. This, coupled with the significant volatility experienced in the financial markets, has increased the need for more relevant information and greater transparency about an entity's exposures arising from financial instruments and how those risks are managed. Financial statement users and other investors need such information to make more informed judgements about risks that entities run from the use of financial instruments and their associated returns.

PSAK 60 set out disclosure requirements that are intended to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, and to understand the nature and extent of risks arising from those financial instruments to which the entity is exposed. These risks include credit risk, liquidity risk and market risk. PSAK 68 requires disclosure of a three-level hierarchy for fair value measurement and requires some specific quantitative disclosures for financial instruments at the lowest level in the hierarchy.

The disclosure requirements do not just apply to banks and financial institutions. All entities that have financial instruments are affected – even simple instruments such as borrowings, accounts payable and receivable, cash and investments.

PSAK 71

The publication of PSAK 71 in July 2017 is the culmination of the DSAK IAI's efforts to replace PSAK 55. The standard will become effective for the periods beginning on or after 1 January 2020. Early application of PSAK 71 is permitted. The Board also amended the transitional provisions to provide relief from restating comparative information and introduced new disclosures to help users of financial statements understand the effect of moving to the PSAK 71 classification and measurement model.

Classification and measurement

PSAK 71 replaces the multiple classification and measurement models for financial assets in PSAK 55 with a single model that has three classification categories: amortised cost, fair value through OCI and fair value through profit and loss. Classification under PSAK 71 is driven by the entity's business model for managing the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. However, at initial recognition an entity may irrevocably designate a financial asset as measured at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch.

The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortised cost or fair value if the contractual cash flows do not represent solely payments of principal and interest. PSAK 71 prohibits reclassifications except in rare circumstances when the entity's business model changes. There is specific guidance for contractually linked instruments that leverage credit risk, which is often the case with investment tranches in a securitisation.

PSAK 71's classification principles indicate that all equity investments should be measured at fair value through profit and loss. However, an entity has the ability to make an irrevocable election, on an instrument-by-instrument basis, to present changes in fair value in other comprehensive income (OCI) rather than profit or loss, as long as the instrument is not held for trading. PSAK 71 removes the cost exemption for unquoted equities and derivatives on unquoted equities, but provides guidance on when cost may be an appropriate estimate of fair value.

The classification and measurement of financial liabilities under PSAK 71 remains the same as in PSAK 55 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI. Amounts in OCI relating to own credit are not recycled to the income statement even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity. Entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

Impairment

The impairment rules of PSAK 71 introduce a new, forward looking, expected credit loss ('ECL') impairment model which will generally result in earlier recognition of losses compared to PSAK 55. These changes are likely to have a significant impact on entities that have significant financial assets, in particular financial institutions.

The new impairment model introduces a three stage approach. Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (that is, expected losses arising from the risk of default in the next 12 months) are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit-impaired. For these assets, lifetime ECL (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised, and interest revenue is still calculated on the gross carrying amount of the asset. Stage 3 consists of financial assets that are credit-impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For these assets, lifetime ECL are also recognised, but interest revenue is calculated on the net carrying amount (that is, net of the ECL allowance).

In many cases, application of the new requirements will require significant judgement – in particular when assessing whether there has been a significant increase in credit risk (triggering a move from stage 1 to stage 2 and a consequential increase from 12 month ECL to lifetime ECL) and in estimating ECL including the effect of forward looking information. PSAK 71 also introduces significant new disclosure requirements.

Hedging

The hedging rules of PSAK 71 better aligns hedge accounting with management's risk management strategies. Also, some of the prohibitions and rules in PSAK 55 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges. For instance, PSAK 55's 80-125% bright line test is replaced with a requirement for there to be an economic relationship between the hedged item and hedging instrument and no imbalance between their weighting that would create ineffectiveness. Risk components can be designated for non-financial hedged items provided the risk component is separately identifiable and reliably measurable and there will be less income statement volatility for entities using options or forwards for hedging. Both of these changes will likely result in more hedges qualifying for hedge accounting than under PSAK 55.

PSAK 71 provides an accounting policy choice: entities can either continue to apply the hedge accounting requirements of PSAK 55 until the macro hedging project is finalised, or they can apply PSAK 71 (with the scope exception only for fair value macro hedges of interest rate risk).

This accounting policy choice will apply to all hedge accounting and cannot be made on a hedge-by-hedge basis.

7. Foreign currencies – PSAK 10, PSAK 63

PSAK 10

Many entities do business with overseas suppliers or customers, or have overseas operations. This gives rise to two main accounting issues:

- Some transactions (for example, those with overseas suppliers or customers) may be denominated in foreign currencies. These transactions are expressed in the entity's own currency ('functional currency') for financial reporting purposes.
- A parent entity may have foreign operations such as overseas subsidiaries, branches or associates. The functional currency of these foreign operations may be different to the parent entity's functional currency and therefore the accounting records may be maintained in different currencies. Because it is not possible to combine transactions measured in different currencies, the foreign operation's results and financial position are translated into a single currency, namely that in which the group's consolidated financial statements are reported ('presentation currency').

The methods required for each of the above circumstances are summarised below.

Expressing foreign currency transactions in the entity's functional currency

A foreign currency transaction is expressed in the functional currency using the exchange rate at the transaction date. Foreign currency balances representing cash or amounts to be received or paid in cash ('monetary items') are retranslated at the end of the reporting period, using the exchange rate on that date. Exchange differences on such monetary items are recognised as income or expense for the period. Non-monetary balances that are not re-measured at fair value and are denominated in a foreign currency are expressed in the functional currency using the exchange rate at the transaction date. Where a non-monetary item is re-measured at fair value in the financial statements, the exchange rate at the date when fair value was determined is used.

Translating functional currency financial statements into a presentation currency

Assets and liabilities are translated from the functional currency to the presentation currency at the closing rate at the end of the reporting period. The income statement is translated at exchange rates at the dates of the transactions or at the average rate if that approximates the actual rates. All resulting exchange differences are recognised in other comprehensive income.

The financial statements of a foreign operation that has the currency of a hyperinflationary economy as its functional currency are first restated in accordance with PSAK 63, 'Financial reporting in hyperinflationary economies'. All components are then translated to the presentation currency at the closing rate at the end of the reporting period.

8. Insurance contracts – PSAK 62

Insurance contracts are contracts where an entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if the insured event adversely affects the policyholder. The risk transferred in the contract must be insurance risk, which is any risk except for financial risk

PSAK 62, ‘Insurance contracts’, applies to all issuers of insurance contracts whether or not the entity is legally an insurance company. It does not apply to accounting for insurance contracts by policyholders.

It allows entities to continue with their existing accounting policies for insurance contracts if those policies meet certain minimum criteria. One of the minimum criteria is that the amount of the insurance liability is subject to a liability adequacy test. This test considers current estimates of all contractual and related cash flows. If the liability adequacy test identifies that the insurance liability is inadequate, the entire deficiency is recognised in the income statement.

PSAK 62 has two main principles for disclosure. Entities should disclose:

- information that identifies and explains the amounts in its financial statements arising from insurance contracts.

- information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

9. Revenue and construction contracts – PSAK 23, PSAK 34, PSAK 61 and PSAK 72

Revenue is measured at the fair value of the consideration received or receivable. When the substance of a single transaction indicates that it includes separately identifiable components, revenue is allocated to these components generally by reference to their fair values. It is recognised for each component separately by applying the recognition criteria below. For example, when a product is sold with a subsequent service, revenue is allocated initially to the product component and the service component; it is recognised separately thereafter when the criteria for revenue recognition are met for each component.

Revenue – PSAK 23

Revenue arising from the sale of goods is recognised when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement usually associated with ownership or control, if it is probable that economic benefits will flow to the entity and the amount of revenue and costs can be measured reliably.

Revenue from the rendering of services is recognised when the outcome of the transaction can be estimated reliably. This is done by reference to the stage of completion of the transaction at the balance sheet date, using requirements similar to those for construction contracts. The outcome of a transaction can be estimated reliably when: the amount of revenue can be measured reliably; it is probable that economic benefits will flow to the entity; the stage of completion can be measured reliably; and the costs incurred and costs to complete can be reliably measured.

Examples of transactions where the entity retains significant risks and rewards of ownership and revenue is not recognised are when:

- the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
- the buyer has the power to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return; and
- when the goods are shipped subject to installation and that installation is a significant part of the contract.

Interest income is recognised using the effective interest rate method. Royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement. Dividends are recognised when the shareholder’s right to receive payment is established.

ISAK 10, ‘Customer loyalty programmes’, clarifies the accounting for award credits granted to customers when they purchase goods or services,for example under frequent-flyer or supermarket loyalty schemes. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale.

ISAK 27, 'Transfers of assets from customers', clarifies the accounting for arrangements where an item of property, plant and equipment is transferred by a customer in return for connection to a network and/or ongoing access to goods or services. ISAK 27 will be most relevant to the utility industry, but it may also apply to other transactions, such as when a customer transfers ownership of property, plant and equipment as part of an outsourcing agreement.

Construction contracts – PSAK 34

A construction contract is a contract specifically negotiated for the construction of an asset or combination of assets, including contracts for the rendering of services directly related to the construction of the asset (such as project managers and architects services). Such contracts are typically fixed- price or cost-plus contracts.

Revenue and expenses on construction contracts are recognised using the percentage-of-completion method. This means that revenue, expenses and therefore profit are recognised gradually as contract activity occurs.

When the outcome of the contract cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that it is probable will be recovered; contract costs are recognised as an expense as incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenue – PSAK 72

DSAK IAI issued a standard on revenue recognition – PSAK 72 'Revenue from Contracts with Customers' in July 2017 as part of the convergence to IFRS. The standard contains principles that an entity will apply to determine the measurement of revenue and the timing of when it is recognised. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard could significantly change how many entities recognise revenue. The standard will also result in a significant increase in the volume of disclosures related to revenue recognition.

Under PSAK 72, revenue is recognised based on the satisfaction of performance obligations. In applying PSAK 72, entities would follow this five-step process:

1. Identify the contract with a customer.
2. Identify the separate performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the separate performance obligations.
5. Recognise revenue when (or as) each performance obligation is satisfied.

1. Identify the contract with a customer

The model starts with identifying the contract with the customer, and whether an entity should combine, for accounting purposes, two or more contracts, to properly reflect the economics of the underlying transaction. An entity will need to conclude that it is 'probable', at the inception of the contract, that the entity will collect the consideration to which it will ultimately be entitled in exchange for the goods or services that are transferred to the customer in order for a contract to be within the scope of the revenue standard.

Two or more contracts (including contracts with related parties of the customers) should be combined if: the contracts are entered into at or near the same time and the contracts are negotiated with a single commercial objective; the amount of consideration in one contract depends on the other contract; or the goods or services in the contracts are interrelated. A contract modification is treated as a separate contract only if it results in the addition of a separate performance obligation and the price reflects the stand-alone selling price (that is, the price at which the good or service would be sold on a stand-alone basis) of the additional performance obligation. The modification is otherwise accounted for as an adjustment to the original contract, either through a cumulative catch-up adjustment to revenue or a prospective adjustment to revenue when future performance obligations are satisfied, depending on whether the remaining goods and services are distinct.

While aspects of this model are similar to PSAK 23/PSAK 34, careful consideration will be needed to ensure that the model is applied to the appropriate unit of account.

2. Identify the separate performance obligations in the contract

An entity will be required to identify all performance obligations in a contract. Performance obligations are promises to transfer goods or services to a customer, and they are similar to what we know today as 'elements' or 'deliverables'. Performance obligations might be explicitly stated in the contract, but they might also arise in other ways. Legal or statutory requirements to deliver a good or perform a service might create performance obligations, even though such obligations are not explicit in the contract. A performance obligation could also be created through customary business practices, such as an entity's practice of providing customer support, or by published policies or specific company statements. This could result in an increased number of performance obligations within an arrangement, possibly changing the timing of revenue recognition.

An entity accounts for each promised good or service as a separate performance obligation if the good or service is distinct. Such a good or service is distinct if both of the following criteria are met:

1. The customer can benefit from the good or service, either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and
2. The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).

Sales-type incentives, such as free products or customer loyalty programmes might be performance obligations under PSAK 72; if so, revenue will be deferred until such obligations are satisfied, such as when a customer redeems loyalty points. Other potential changes in this area include accounting for return rights, licences and options.

3. Determine the transaction price

Once an entity identifies the performance obligations in a contract, the obligations will be measured by reference to the transaction price. The transaction price reflects the amount of consideration that an entity expects to be entitled to in exchange for goods or services transferred. The amount of expected consideration captures: (1) variable consideration if it is 'highly probable' that the amount will not result in a significant revenue reversal if estimates change; (2) an assessment of time value of money (as a practical expedient, an entity need not make this assessment where the period between payment and the transfer of goods or services is less than one year); (3) non-cash consideration, generally at fair value; and (4) less any consideration paid to customers.

Variable consideration is measured using either a 'probability weighted' or 'most likely amount' approach, whichever is most predictive of the final outcome. Inclusion of variable consideration in the initial measurement of the transaction price might result in a significant change in the timing of revenue recognition. Such consideration is recognised as the entity satisfies its related performance obligations, provided that (1) the entity has relevant experience with similar performance obligations (or other valid evidence) that allows it to estimate the cumulative amount of revenue for a satisfied performance obligation, and (2) based on that experience, the entity does not expect a significant reversal in future periods in the cumulative amount of revenue recognised for that performance obligation. Revenue could, therefore, be recognised earlier than under PSAK 34/PSAK 23 if an entity meets the conditions to include variable consideration in the transaction price. Judgement will be needed to assess whether the entity has predictive experience about the outcome of a contract. The following indicators might suggest that the entity's experience is not predictive of the outcome of a contract: (1) the amount of consideration is highly susceptible to factors outside the influence of the entity; (2) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time; (3) the entity's experience with similar types of contract is limited; and (4) the contract has a large number and broad range of possible consideration amounts.

4. Allocate the transaction price to the separate performance obligations

For contracts with multiple performance obligations (deliverables), the performance obligations should be separately accounted for, to the extent that the pattern of transfer of goods and services is different. Once an entity identifies and determines whether to separately account for all of the performance obligations in a contract, the transaction price is allocated to these separate performance obligations, based on relative stand-alone selling prices.

The best evidence of stand-alone selling price is the observable price of a good or service where the entity sells that good or service separately. The selling price is estimated if a stand-alone selling price is not available. Some possible estimation methods include (1) cost plus a reasonable margin, and (2) evaluation of stand-alone sales prices of the same or similar products, if available. If the stand-alone selling price is highly variable or uncertain, entities could use a residual approach to aid in estimating the stand-alone selling price (that is, total transaction price less the stand-alone selling prices of other goods or services in the contract). An entity could also allocate discounts and variable amounts entirely to one (or more) performance obligations if certain conditions are met.

5. Recognise revenue when (or as) each performance obligation is satisfied

Revenue should be recognised when a promised good or service is transferred to the customer. This occurs when the customer obtains control of that good or service. Control can transfer at a point in time or continuously over time. Determining when control transfers will require significant judgement. An entity satisfies a performance obligation over time if: (1) the customer is receiving and consuming the benefits of the entity's performance as the entity performs (that is, another entity would not need to substantially re-perform the work completed to date); (2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (3) the entity's performance does not create an asset with an alternative use to the entity, the entity has a right to payment for performance completed to date that includes compensation for a reasonable profit margin, and it expects to fulfil the contract. A good or service not satisfied over time is satisfied at a point in time. Indicators to consider, in determining when the customer obtains control of a promised asset, include: (1) the customer has an unconditional obligation to pay; (2) the customer has legal title; (3) the customer has physical possession; (4) the customer has the risks and rewards of ownership of the good; and (5) the customer has accepted the asset. These indicators are not a checklist, nor are they all-inclusive. All relevant factors should be considered, to determine whether the customer has obtained control of a good.

If control is transferred continuously over time, an entity could use output methods (for example, units delivered) or input methods (for example, costs incurred or passage of time) to measure the amount of revenue to be recognised. The method that best depicts the transfer of goods or services to the customer should be applied consistently throughout the contract and to similar contracts with customers.

Contract cost guidance

PSAK 72 also includes guidance related to contract costs. Costs relating to satisfied performance obligations and costs related to inefficiencies should be expensed as incurred. Incremental costs of obtaining a contract (for example, a sales commission) should be recognised as an asset if they are expected to be recovered. An entity can expense the cost of obtaining a contract if the amortisation period would be less than one year. Entities should evaluate whether direct costs incurred in fulfilling a contract are within the scope of other standards (for example, inventory, intangibles, or property, plant and equipment). If so, the entity should account for such costs in accordance with those standards. If not, the entity should capitalise those costs only if the costs relate directly to a contract, relate to future performance, and are expected to be recovered under a contract. An example of such costs might be certain mobilisation, design or testing costs. These costs would then be amortised as control of the goods or services to which the asset relates is transferred to the customer. The amortisation period could extend beyond the length of the contract, where the economic benefit will be received over a longer period. An example might include set-up costs related to contracts likely to be renewed.

Licensing

PSAK 72 includes specific implementation guidance on accounting for licences of IP. The first step is to determine whether the licence is distinct or combined with other goods or services. The revenue recognition pattern for distinct licences is based on whether the licence is a right to access IP (revenue recognised over time) or a right to use IP (revenue recognised at a point in time). For licences that are bundled with other goods or services, management will apply judgement to assess the nature of the combined item and determine whether the combined performance obligation is satisfied at a point in time or over time. In addition, the revenue standard includes an exception to variable consideration guidance for the recognition of sales- or usage-based royalties promised in exchange for a licence of IP.

Principal versus agent considerations

Where an arrangement involves two or more unrelated parties that contribute to providing a specified good or service to a customer, management will need to determine whether the entity has promised to provide the specified good or service itself (as a principal) or to arrange for those specified goods or services to be provided by another party (as an agent).

Determining whether an entity is the principal or an agent is not a policy choice. PSAK 72 includes indicators that an entity controls a specified good or service before it is transferred to the customer, to help entities to apply the concept of control to the principal versus agent assessment. The assessment should be made separately for each specified good or service. An entity could be the principal for some goods or services, and an agent for others, in contracts with multiple distinct goods or services.

Summary observations and anticipated timing

The above commentary is not all-inclusive. The effect of PSAK 72 is extensive, and all industries could be affected. Some will see pervasive changes, because the new model will replace all existing PSAK revenue recognition guidance, including industry-specific guidance with limited exceptions The final standard will be effective for the first interim period within annual reporting periods beginning on or after 1 January 2020 superseding PSAK 23, PSAK 34, ISAK 10, and ISAK 27.

Entities should continue to evaluate how the model might affect current business activities, including contract negotiations, key metrics (including debt covenants and compensation arrangements), budgeting, controls and processes, information technology requirements, and accounting. PSAK 72 will permit an entity to apply it either retrospectively in accordance with PSAK 25 or modified retrospectively (that is, including the cumulative effect at initial application date in opening retained earnings – or other equity components, as appropriate). PSAK 72 also provides certain practical expedients that an entity could elect to apply, to simplify transition.

Government grants – PSAK 61

Government grants are recognised when there is reasonable assurance that the entity will comply with the conditions related to them and that the grants will be received.

Grants related to income are recognised in profit or loss over the periods necessary to match them with the related costs that they are intended to compensate. They are either offset against the related expense or presented as separate income. The timing of such recognition in profit or loss will depend on the fulfilment of any conditions or obligations attaching to the grant.

Grants related to assets are either offset against the carrying amount of the relevant asset or presented as deferred income in the balance sheet. Profit or loss will be affected either by a reduced depreciation charge or by deferred income being recognised as income systematically over the useful life of the related asset.

10. Operating segments – PSAK 5

Segment guidance requires an entity to disclose information that enables users of the financial statements to evaluate the nature and financial effects of the business activities and the economic environments through the eyes of management ('management approach').

Though many entities manage their business using some level of 'segmented' data, the disclosure requirements are limited to (a) entities with listed or quoted equity or debt instruments and (b) entities that are in the process of obtaining a listing or quotation of debt or equity instruments in a public market. To the extent an entity not meeting either of these criteria chooses to disclose segmented data in financial statements, the information can only be referred to as 'segment information' if it complies with the segment guidance described below.

The identification of an entity's operating segments is the core determinant for the level of information included in the segment disclosures. Operating segments are components of an entity, identified based on the breakout of information contained in the internal reports that are regularly used by the entity's chief operating decision-maker (CODM) to allocate resources and to assess performance.

Reportable segments are individual operating segments or a group of operating segments for which segment information must be separately reported (that is, disclosed). Aggregation of one or more operating segments into a single reportable segment is permitted (but not required) where certain conditions are met, the principal condition being that the operating segments should have similar economic characteristics (for example. profit margin, spreads, sales growth rates, etc). Whether multiple operating segments can be aggregated into a single reportable segment is a matter of significant judgement.

For each segment disclosed, entities are required to provide a measure of profit or loss in the format viewed by the CODM, as well as a measure of assets and liabilities if such amounts are regularly provided to the CODM. Other segment disclosures include the revenue from customers for each group of similar products and services, revenue by geography and dependence on major customers. Additional detailed disclosures of performance and resources are required if the CODM reviews these amounts. A reconciliation of the total amount disclosed for all segments to the primary financial statements is required for revenue, profit and loss, and other material items reviewed by the CODM.

11. Employee benefits – PSAK 24

The accounting for employee benefits, for pensions in particular, is complex. The liabilities in defined benefit pension plans are frequently material. They are long-term and difficult to measure, and this gives rise to difficulty in measuring the cost attributable to each year.

Employee benefits are all forms of consideration given or promised by an entity in exchange for services rendered by its employees. These benefits include salary-related benefits (such as wages, profit-sharing, bonuses and compensated absences, such as paid holiday and long-service leave), termination benefits (such as severance and redundancy pay) and post-employment benefits (such as retirement benefit plans). PSAK 24 is relevant for all employee benefits except for those to which PSAK 53.

Post-employment benefits include pensions, post-employment life insurance and medical care. Pensions are provided to employees either through defined contribution plans or defined benefit plans.

Recognition and measurement for short-term benefits is relatively straight-forward, because actuarial assumptions are not required and the obligations are not discounted. However, long-term benefits, particularly post-employment benefits, give rise to more complicated measurement issues.

Defined contribution plans

Accounting for defined contribution plans is straight-forward: the cost of defined contribution plans is the contribution payable by the employer for that accounting period.

Defined benefit plans

Accounting for defined benefit plans is complex because actuarial assumptions and valuation methods are required to measure the balance sheet obligation and the expense. The expense recognised generally differs from the contributions made in the period.

Subject to certain conditions, the amount recognised on the balance sheet is the difference between the defined benefit obligation and the plan assets.

To calculate the defined benefit obligation, estimates (actuarial assumptions) regarding demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) are made and included in a valuation model. The resulting benefit obligation is then discounted to present value. This normally requires the expertise of an actuary.

Where defined benefit plans are funded, the plan assets are measured at fair value. Where no market price is available, the fair value of plan assets is estimated, for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity of those assets. Plan assets are tightly defined, and only assets that meet a strict definition may be offset against the plan's defined benefit obligations, resulting in a net surplus or deficit that is shown on the balance sheet.

At each balance sheet date the plan assets and the defined benefit obligation are re-measured. The income statement reflects the change in the surplus or deficit except for the following; contributions to the plan and benefits paid by the plan, along with business combinations and re-measurement gains and losses.

Re-measurement gains and losses comprise actuarial gains and losses, return on plan assets (excluding amounts included in net interest on the net defined benefit liability or asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability or asset). Re-measurements are recognised in other comprehensive income.

The amount of pension expense (income) to be recognised in profit or loss is comprised of the following individual components unless they are required or permitted to be included in the costs of an asset:
- service cost (the present value of the benefits earned by active employees); and

- net interest cost (the unwinding of the discount on the defined benefit obligation and a theoretical return on plan assets).

Service costs comprises the 'current service costs', which is the increase in the present value of the defined benefit obligation resulting from employee services in the current period, 'past-service costs' (as defined below and including any gain or loss on curtailment) and any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is defined as 'the change during the period in the net defined benefit liability (asset) that arises from the passage of time'. [PSAK 24 para 8]. The net interest cost can be viewed as comprising theoretical interest income on plan assets, interest cost on the defined benefit obligation (that is, representing the unwinding of the discount on the plan obligation) and interest on the effect of the asset ceiling. [PSAK 24 para 124].

Net interest on the net defined benefit liability (asset) is calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments. [PSAK 24 para 123]. The discount rate applicable to any financial year is an appropriate high quality corporate bond rate (or government bond rate if appropriate) in the currency in which the liabilities are denominated. Net interest on the net defined benefit liability (asset) can be viewed as effectively including theoretical interest income on plan assets.

Past-service costs are defined as a change in the present value of the defined benefit obligation for employee services in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan). Past-service costs need to be recognised as an expense generally when a plan amendment or curtailment occurs. Settlement gains or losses are recognised in the income statement when the settlement occurs.

ISAK 15, 'PSAK 24 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the amount that can be recognised as an asset when plan assets exceed the defined benefit obligation creating a net surplus. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

12. Share-based payment – PSAK 53

PSAK 53 applies to all share-based payment transactions in which goods or services are received as part of a share-based payment arrangement. A share-based payment arrangement is defined as:

"an agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:
(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or
(b) equity instruments (including shares or share options) of the entity or another group entity."

The most common application is to employee share schemes, such as share option schemes. However, entities sometimes also pay for other expenses – such as professional fees, and for the purchase of assets by means of share-based payment.

The accounting treatment under PSAK 53 is based on the fair value of the instruments. Both the valuation of and the accounting for awards can be difficult, due to the complex models that need to be used to calculate the fair value of options, and also due to the variety and complexity of schemes. In addition, the standard requires extensive disclosures. The result generally is reduced reported profits, especially in entities that use share-based payment extensively as part of their remuneration strategy.

All transactions involving share-based payment are recognised as expenses or assets over any vesting period.

Equity-settled share-based payment transactions are measured at the grant date fair value for employee services; and, for non-employee transactions, at the fair value of the goods or services received at the date on which the entity recognises the goods or services. If the fair value of the goods or services cannot be estimated reliably – such as employee services and circumstances in which the goods or services cannot be specifically identified – the entity uses the fair value of the equity instruments granted. Additionally, management needs to consider if there are any unidentifiable goods or services received or to be received by the entity, as these also have to be recognised and measured in accordance with PSAK 53.

Equity-settled share-based payment transactions are not re-measured once the grant date fair value has been determined.

The treatment is different for cash-settled share-based payment transactions: cash-settled awards are measured at the fair value (as defined in PSAK 53 and not as defined in PSAK 68) of the liability. The liability is re-measured at each balance sheet date and at the date of settlement, with changes in fair value recognised in the income statement.

13. Taxation – PSAK 46

PPSAK 46 only deals with taxes on income, comprising current and deferred tax.

Current tax expense for a period is based on the taxable and deductible amounts that will be shown on the tax return for the current year. An entity recognises a liability in the balance sheet in respect of current tax expense for the current and prior periods to the extent unpaid. It recognises an asset if current tax has been overpaid.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Tax payable, based on taxable profit, seldom matches the tax expense that might be expected, based on pre-tax accounting profit. Tax laws and financial accounting standards recognize and measure income, expenditure, assets and liabilities in different ways.

Deferred tax accounting seeks to deal with this mismatch. It is based on the temporary differences between the tax base of an asset or liability and its carrying amount in the financial statements. For example, an asset is revalued upwards but not sold, the revaluation creates a temporary difference (the carrying amount of the asset in the financial statements is greater than the tax base of the asset), and the tax consequence is a deferred tax liability.

Deferred tax is provided in full for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the temporary difference arises from:

- initial recognition of goodwill (for deferred tax liabilities only);
- initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit; and
- investments in subsidiaries, branches, associates and joint ventures, but only where certain criteria apply.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The discounting of deferred tax assets and liabilities is not permitted.

Generally, the measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. The carrying amount of a non-depreciable asset (e.g., land) can only be recovered through sale. For other assets, the manner in which management expects to recover the asset (that is, through use or through sale or through a combination of both) is considered at each balance sheet date. An exception is being introduced for investment property measured using the fair value model in PSAK 13, with a rebuttable presumption that such investment property is recovered entirely through sale. However, for investment property located in Indonesia, this presumption will not be applicable as the sale of land and building is subject to final tax that is outside the scope of PSAK 46.

Management only recognises a deferred tax asset for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. This also applies to deferred tax assets for unused tax losses carried forward.

Current and deferred tax is recognised in profit or loss for the period, unless the tax arises from a business combination or a transaction or event that is recognised outside profit or loss, either in other comprehensive income or directly in equity in the same or different period. The tax consequences that accompany, for example, a change in tax rates or tax laws, a reassessment of the recoverability of deferred tax assets or a change in the expected manner of recovery of an asset are recognised in profit or loss, except to the extent that they relate to items previously charged or credited outside profit or loss.

14. Earnings per share – PSAK 56

Earnings per share (EPS) is a ratio that is widely used by financial analysts, investors and others to gauge an entity's profitability and to value its shares. EPS is normally calculated the context of ordinary shares of the entity. Earnings attributable to ordinary shareholders are therefore determined by deducting from net income the earnings attributable to holders of more senior equity instruments.

An entity whose ordinary shares are listed on a recognised stock exchange or are otherwise publicly traded is required to disclose both basic and diluted EPS with equal prominence in its financial statements. Furthermore, entities that file or are in the process of filing financial statements with a securities commission or other regulatory body for the purposes of issuing ordinary shares (that is, not a private placement) are also required to comply with the standard.

Basic EPS is calculated by dividing the profit or loss for the period attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding (including adjustments for bonus and rights issues).

Diluted EPS is calculated by adjusting the profit or loss and the weighted average number of ordinary shares by taking into account the conversion of any dilutive potential ordinary shares. Potential ordinary shares are those financial instruments and contracts that may result in issuing ordinary shares such as convertible bonds and options (including employee share options).

Basic and diluted EPS for both continuing and total operations are presented with equal prominence in the statement of comprehensive income – or in the separate income statement where one is presented – for each class of ordinary shares. Separate EPS figures for discontinued operations are disclosed in the same statements or in the notes.

Balance sheet and related notes

15. Intangible assets – PSAK 19

An intangible asset is an identifiable non-monetary asset without physical substance. The identifiable criterion is met when the intangible asset is separable (that is, when it can be sold, transferred or licensed) or where it arises from contractual or other legal rights.

Separately acquired intangible assets

Separately acquired intangible assets are recognised initially at cost. Cost comprises the purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of preparing the asset for its intended use. The purchase price of a separately acquired intangible asset incorporates assumptions about the probable economic future benefits that may be generated by the asset.

Internally generated intangible assets

The process of generating an intangible asset is divided into a research phase and a development phase. No intangible assets arising from the research phase may be recognised. Intangible assets arising from the development phase are recognised when the entity can demonstrate:

- its technical feasibility;
- its intention to complete the developments;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits (for example, the existence of a market for the output of the intangible asset or for the intangible asset itself);
- the availability of resources to complete the development; and
- its ability to measure the attributable expenditure reliably.

Any expenditure written off during the research or development phase cannot subsequently be capitalised if the project meets the criteria for recognition at a later date.

The costs relating to many internally generated intangible items cannot be capitalised and are expensed as incurred. This includes research, start-up and
advertising costs. Expenditure on internally generated brands, mastheads, customer lists, publishing titles and goodwill are not recognised as intangible assets.

Intangible assets acquired in a business combination

If an intangible asset is acquired in a business combination, both the probability and measurement criterion are always considered to be met. An intangible asset will therefore always be recognised, regardless of whether it has been previously recognised in the acquiree's financial statements.

Subsequent measurement

Intangible assets are amortised unless they have an indefinite useful life. Amortisation is carried out on a systematic basis over the useful life of the intangible asset. An intangible asset has an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets with finite useful lives are considered for impairment when there is an indication that the asset has been impaired. Intangible assets with indefinite useful lives and intangible assets not yet in use are tested annually for impairment and whenever there is an indication of impairment.

16. Property, plant and equipment – PSAK 16

Property, plant and equipment (PPE) is recognised when the cost of an asset can be reliably measured and it is probable that the entity will obtain future economic benefits from the asset.

PPE is measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates) and any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and non-refundable purchase taxes).

Directly attributable costs include the cost of site preparation, delivery, installation costs, relevant professional fees and the estimated cost of dismantling and removing the asset and restoring the site (to the extent that such a cost is recognised as a provision). Classes of PPE are carried at historical cost less accumulated depreciation and any accumulated impairment losses (the cost model), or at a revalued amount less any accumulated depreciation and subsequent accumulated impairment losses (the revaluation model). The depreciable amount of PPE (being the gross carrying value less the estimated residual value) is depreciated on a systematic basis over its useful life.

Subsequent expenditure relating to an item of PPE is capitalised if it meets the recognition criteria.

PPE may comprise parts with different useful lives. Depreciation is calculated based on each individual part's life. In case of replacement of one part, the new part is capitalised to the extent that it meets the recognition criteria of an asset, and the carrying amount of the parts replaced is derecognised.

The cost of a major inspection or overhaul of an item occurring at regular intervals over the useful life of the item is capitalised to the extent that it meets the recognition criteria of an asset. The carrying amounts of the parts replaced are derecognised.

ISAK 25 'Land rights' clarifies that cost to obtain the land right (Hak Guna Usaha, Hak Guna Bangungan and Hak Pakai) is capitalised as fixed assets based on PSAK 16. Useful life of land rights is indefinite, thus not depreciated unless there is indication that the right renewal or extension cannot be obtained. Cost to extent or renew the right is recognized as intangible assets and amortised over the useful life of intangible assets which is based on legal right life or economic life of land, whichever is shorter.

ISAK 27 clarifies the accounting for arrangements where an item of PPE that is provided by the customer is used to provide an ongoing service. However, ISAK 27 will be superseded by PSAK 72 effectively starting from 1 January 2020.

Borrowing costs

Under PSAK 26, ‘Borrowing costs’, entities are required to capitalise borrowing costs directly attributable to the acquisition, production or construction of a qualifying asset.

17. Investment property – PSAK 13

Certain properties are classified as investment properties for financial reporting purposes in accordance with PSAK 13, 'Investment property', as the characteristics of these properties differ significantly from owner-occupied properties. It is the current value of such properties and changes to those values that are relevant to users of financial statements.

Investment property is property (land or a building, or part of a building or both) held by an entity to earn rentals and/or for capital appreciation. This category includes such property in the course of construction or development. Any other properties are accounted for as property, plant and equipment (PPE) or inventory in accordance with:

- PSAK 16, 'Property, plant and equipment', if they are held for use in the production or supply of goods or services; or
- PSAK 14, 'Inventories', as inventory, if they are held for sale in the ordinary course of business.

Investment property is initially measured at cost. Management could subsequently measure investment properties at fair value or at cost. This is an accounting policy choice. The policy chosen is applied consistently to all of the investment properties that the entity owns.

Investment properties in the course of construction or development are measured at fair value if this can be reliably measured, where the fair value option is chosen. Otherwise, they are measured at cost.

Fair value is *“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”*. Guidance on fair value measurement is given in PSAK 68. Changes in fair value are recognised in profit or loss in the period in which they arise.

The cost model requires investment properties to be carried at cost less accumulated depreciation and any accumulated impairment losses; the fair values of these properties is disclosed in the notes.

ISAK 31,’Interpretation of Scope of PSAK 13: Investment Properties’ provides interpretation that the general characteristic of a building that meets the definition of investment property in PSAK 13 refers to the physical structure such as wall, floor, and roof that are attached to the asset.

Transfer to or from investment property is allowed when there is an evidence of change in use. A change in intention is not enough to support the transfer.

18. Impairment of assets – PSAK 48

Nearly all assets – current and non-current – are subject to an impairment test to ensure that they are not overstated on balance sheets.
The basic principle of impairment is that an asset may not be carried on the balance sheet above its recoverable amount. Recoverable amount is defined as the higher of the asset's fair value less costs of disposal and its value in use.

- Fair value less costs of disposal is *'the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date',* less costs of disposal. Guidance on fair valuing is given in PSAK 68, 'Fair value measurement'.
- Value in use requires management to estimate the present value of the future cash flows that are expected to be derived from the asset in its current condition.

The carrying value of an asset is compared to the recoverable amount. An asset or CGU is impaired when its carrying amount exceeds its recoverable amount. Any impairment is allocated to the asset or assets of the CGU, with the impairment loss recognised in profit or loss.

All assets subject to the impairment guidance are tested for impairment where there is an indication that the asset may be impaired. Assets that are not amortized, such as goodwill, indefinite lived intangible assets and intangible assets that are not yet available for use, are also tested for impairment annually even if there is no impairment indicator.

Both external indicators (for example, significant adverse changes in the technological, market, economic or legal environment or increases in market interest rates) and internal indicators (for example, evidence of obsolescence or physical damage of an asset or evidence from internal reporting that the economic performance of an asset is, or will be, worse than expected) are considered, when considering whether an asset is impaired.

An asset seldom generates cash flows independently of other assets, and most assets are tested for impairment in groups of assets described as cash-generating units (CGUs). A CGU is the smallest identifiable group of assets that generates inflows that are largely independent from the cash flows from other CGUs.

Impairment should be identified at the individual asset level, where possible. The recoverable amount should be calculated for the CGU to which the asset belongs only where the recoverable amount for the individual asset cannot be identified. An impairment review of a CGU should cover all of its tangible assets, intangible assets and attributable goodwill. The carrying value of each CGU containing the assets and goodwill being reviewed should be compared with the higher of its value in use and fair value less costs of disposal.

Goodwill acquired in a business combination is allocated to the acquirer's CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination. However, the largest group of CGUs permitted for goodwill impairment testing is the lowest level of operating segment before aggregation.

19. Lease accounting – PSAK 30 and PSAK 73

PSAK 30

A lease gives one party (the lessee) the right to use an asset over an agreed period of time in return for payment to the lessor. Leasing is an important source of medium- and long-term financing; accounting for leases can have a significant impact on lessees' and lessors' financial statements.

Leases are classified as finance or operating leases at inception, depending on whether substantially all the risks and rewards of ownership transfer to the lessee. Under a finance lease, the lessee has substantially all of the risks and reward of ownership. All other leases are operating leases. Leases of land and buildings are considered separately under PSAK.

Under a finance lease, the lessee recognises an asset held under a finance lease and a corresponding obligation to pay rentals. The lessee depreciates the asset.

The lessor recognises the leased asset as a receivable. The receivable is measured at the 'net investment' in the lease – the minimum lease payments receivable, discounted at the internal rate of return of the lease, plus the unguaranteed residual which accrues to the lessor.

Under an operating lease, the lessee does not recognise an asset and lease obligation. The lessor continues to recognise the leased asset and depreciates it. The rentals paid are normally charged to the income statement of the lessee and credited to that of the lessor on a straight-line basis.

Linked transactions with the legal form of a lease are accounted for on the basis of their substance – for example, a sale and leaseback where the seller is committed to repurchase the asset may not be a lease in substance if the 'seller' retains the risks and rewards of ownership and substantially the same rights of use as before the transaction.

Equally, some transactions that do not have the legal form of a lease are in substance leases if they are dependent on a particular asset that the purchaser can control physically or economically.

PSAK 73

PSAK 73, 'Leases', was published in 2017 and will replace the current guidance in PSAK 30. PSAK 73 defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Under PSAK 73, lessees have to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for almost all lease contracts. This is a significant change compared to PSAK 30, under which lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). PSAK 73 gives lessees optional exemptions for certain short-term leases and leases of low-value assets. In the income statement, lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset. In the cash flow statement, the part of the lease payments that reflects interest on the lease liability can be presented as an operating cash flow (if it is the entity's policy to present interest payments as operating cash flows). Cash payments for the principal portion of the lease liability are classified within financing activities. Payments for short-term leases, for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.

As under PSAK 30, the lessor has to classify leases as either finance or operating, depending on whether substantially all of the risks and rewards incidental to ownership of the underlying asset have been transferred.

For a finance lease, the lessor recognises a receivable; and, for an operating lease, the lessor continues to recognise the underlying asset.

PSAK 73 adds significant new, enhanced disclosure requirements for both lessors and lessees.

PSAK 73 is effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted, but only in conjunction with PSAK 72, 'Revenue from contracts with customers'. On transition, lessees can choose between full retrospective application and a 'simplified approach' that includes certain reliefs and does not require a restatement of comparatives. In addition, as a practical expedient, entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are 'grandfathered').

20. Inventories – PSAK 14

Inventories are initially recognised at the lower of cost and net realisable value (NRV). Cost of inventories includes import duties, non-refundable taxes, transport and handling costs and any other directly attributable costs less trade discounts, rebates and similar items. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

PSAK 14, 'Inventories', requires the cost for items that are not interchangeable or that have been segregated for specific contracts to be determined on an individual-item basis. The cost of other items of inventory used is assigned by using either the first-in, first-out (FIFO) or weighted average cost formula. Last-in, first-out (LIFO) is not permitted. An entity uses the same cost formula for all inventories that have a similar nature and use to the entity. A different cost formula may be justified where inventories have a different nature or use. The cost formula used is applied on a consistent basis from period to period.

21. Provisions and contingencies – PSAK 57

A liability is a *'present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. A provision falls within the category of liabilities and is defined as 'a liability of uncertain timing or amount'.*

Recognition and initial measurement

A provision is recognised when: the entity has a present obligation to transfer economic benefits as a result of past events; it is probable (more likely than not) that such a transfer will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date, measured at the expected cash flows discounted for the time value of money. Provisions are not recognised for future operating losses.

A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity no realistic alternative to settling the obligation. If the entity can avoid the future expenditure by its future actions, it has no present obligation, and no provision is required. For example, an entity cannot recognise a provision based solely on the intent to incur expenditure at some future date or the expectation of future operating losses (unless these losses relate to an onerous contract).

An obligation does not generally have to take the form of a 'legal' obligation before a provision is recognised. An entity may have an established pattern of past practice that indicates to other parties that it will accept certain responsibilities and as a result has created a valid expectation on the part of those other parties that it will discharge those responsibilities (that is, the entity is under a constructive obligation).

If an entity has an onerous contract (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), the present obligation under the contract is recognised as a provision. Impairments of any assets dedicated to the contract are recognised before making a provision.

Restructuring provisions

A restructuring provision is recognized only when the general recognition criteria for provision are met. The obligation for a restructuring is often constructive.

A constructive restructuring obligation arises only when there is: (a) a detailed formal plan identifying the main features of the restructuring; and (b) a valid expectation in those affected that the entity will carry out the restructuring by starting to implement the plan or by announcing its main features to those affected.

A restructuring plan does not create a present obligation at the balance sheet date if it is announced after that date, even if it is announced before the financial statements are approved. A sale of termination of a business might fall under the definition of a restructuring. No obligation arises for the sale of an operation until the entity is committed to the sale (that is, there is a binding sale agreement).

Restructuring provision includes only the direct expenditures arising from the restructuring, which are necessary entailed by the restructuring and not those associated with the entity's ongoing activities. Any expected gains on the sale of assets are not considered in measuring a restructuring provision.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized only when it is virtually certain that reimbursement will be received if the entity settles the obligation. The entity typically remains liable for the entire obligation, and reimbursements are therefore presented separately as assets. The amount recognized should not exceed the amount of the related provision. Expenses relating to a provision can be presented net of the amount recognized for a reimbursement in the income statement.

Subsequent measurement

Provisions should be re-assessed at the end of each reporting period and adjusted to reflect current best estimates. This re-assessment should include the estimated cash flows and the discount rate. The unwiding of the discount due to the passage of time should be included as an element of borrowing costs in arriving at profit or loss for the year.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control, or present obligations that are not recognised because: (a) it is not probable that an outflow of economic benefits will be required to settle the obligation; or (b) the amount cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed, unless the possibility of settlement is remote.

Contingent assets

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control. Contingent assets are not recognised.

Contingent assets are disclosed if the inflow of economic benefits is probable.

Levies

A public authority could impose a levy on entities based on measures such as gross revenues for a specified period or on assets or liabilities at a specified date. ISAK 30 addresses the accounting for such levies. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

22. Events after the reporting period and financial commitments – PSAK 8

It is not generally practicable for preparers to finalise financial statements without a period of time elapsing between the balance sheet date and the date on which the financial statements are authorised for issue. The question therefore arises as to the extent to which events occurring between the balance sheet date and the date of approval (that is, 'events after the reporting period') should be reflected in the financial statements.

Events after the reporting period are either adjusting events or non-adjusting events. Adjusting events provide further evidence of conditions that existed at the balance sheet date – for example, determining after the year end the consideration for assets sold before the year end. Non-adjusting events relate to conditions that arose after the balance sheet date – for example, announcing a plan to discontinue an operation after the year end.

The carrying amounts of assets and liabilities at the balance sheet date are adjusted only for adjusting events or events that indicate that the going- concern assumption in relation to the whole entity is not appropriate. Significant non-adjusting post-balance-sheet events, such as the issue of shares or major business combinations, are disclosed.

Dividends proposed or declared after the balance sheet date but before the financial statements have been authorised for issue are not recognised as a liability at the balance sheet date. Details of these dividends are, however, disclosed.

An entity discloses the date on which the financial statements were authorised for issue and the persons authorising the issue.

23. Share capital and reserves

Equity, along with assets and liabilities, is one of the three elements used to portray an entity's financial position. Equity is defined in the DSAK's Framework as the residual interest in the entity's assets after deducting all its liabilities. The term 'equity' is often used to encompass an entity's equity instruments and reserves. Equity is given various descriptions in the financial statements.

Corporate entities may refer to it as owners' equity, shareholders' equity, capital and reserves, shareholders' funds and proprietorship. Equity includes various components with different characteristics.

Determining what constitutes an equity instrument for the purpose of IFAS and how it should be accounted for falls within the scope of the financial instrument standard PSAK 50, 'Financial instruments: Presentation'.
Equity instruments (for example, issued, non-redeemable ordinary shares) are generally recorded as the residual after recording the recognition or de-recognition of assets or liabilities arising on the equity issue (the proceeds of issue) after deducting directly attributable transaction costs. Equity instruments are not re-measured after initial recognition.

Reserves include retained earnings, together with fair value reserves, hedging reserves, asset revaluation reserves and foreign currency translation reserves and other statutory reserves.

Treasury shares

Treasury shares are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

Non-controlling interests

Non-controlling interests (previously termed 'minority interests') in consolidated financial statements are presented as a component of equity, separately from the parent shareholders' equity.

Disclosures

PSAK 1, 'Presentation of financial statements', requires various disclosures. These include the total issued share capital and reserves, presentation of a statement of changes in equity, capital management policies and dividend information.

Consolidated and separate financial statements

24. Consolidated financial statements – PSAK 65

The principles concerning consolidated financial statements under IFAS are set out in PSAK 65, 'Consolidated financial statements'. PSAK 65 has single definition of control.

PSAK 65's objective is to establish principles for presenting and preparing consolidated financial statements when an entity controls one or more entities. PSAK 65 sets out the requirements for when an entity should prepare consolidated financial statements, defines the principles of control, explains how to apply the principles of control and explains the accounting requirements for preparing consolidated financial statements. [PSAK 65 para 2].

The key principle in the new standard is that control exists, and consolidation is required, only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

PSAK 65 provides guidance on the following issues when determining who has control:

- Assessment of the purpose and design of an investee.
- Relevant activities and power to direct those.

- Nature of rights – whether substantive or merely protective in nature.
- Assessment of voting rights and potential voting rights.
- Whether an investor is a principal or an agent when exercising its controlling power.
- Relationships between investors and how they affect control.
- Existence of power over specified assets only.

In difficult situations, the precise facts and circumstances will affect the analysis under PSAK 65. PSAK 65 does not provide 'bright lines' and requires consideration of many factors, such as the existence of contractual arrangements and rights held by other parties, in order to assess control.

Entities that meet the definition of an investment entity are exempt from consolidating underlying investees that it controls; instead, they are required to account for these subsidiaries at fair value through profit or loss under PSAK 55.

PSAK 65 does not contain any disclosure requirements; these are included within PSAK 67. Reporting entities should plan for, and implement, the processes and controls that will be required to gather the additional information. This may involve a preliminary consideration of PSAK 67 issues such as the level of disaggregation required.

25. Separate financial statements – PSAK 4

PSAK 4 deals with the accounting for investments in subsidiaries, joint ventures and associates when an entity elects, to present separate financial statements as supplementary information to the consolidated financial statements. Each category of investments should be accounted for either at cost, in accordance with PSAK 55 and PSAK 71, or using the equity method in presenting the separate financial statements as supplementary information to the consolidated financial statements.

26. Business combinations – PSAK 22 and PSAK 38

A business combination is a transaction or event in which an entity - ('acquirer/investor') obtains control of one or more businesses ('acquiree/investee(s)'). Under PSAK 65, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. A number of factors may influence which entity has control, including: equity shareholding, control of the board and control agreements. There is a presumption of control if an entity owns more than 50% of the equity shareholding in another entity.

Business combinations occur in a variety of structures. PSAK 22, 'Business combinations', focuses on the substance of the transaction, rather than the legal form. The overall result of a series of transactions is considered if there are a number of transactions among the parties involved. For example, any transaction contingent on the completion of another transaction may be considered linked. Judgement is required to determine when transactions should be linked.

All business combinations, excluding those involving businesses under common control, are accounted for using the acquisition method. The acquisition method can be summarised in the following steps:

- Identify the acquirer.
- Determine the acquisition date.

- Recognise and measure the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree.
- Recognise and measure the consideration transferred for the acquiree.
- Recognise and measure goodwill or a gain from a bargain purchase.

The acquiree's identifiable assets (including intangible assets not previously recognised), liabilities and contingent liabilities are generally recognised at their fair value. Fair value is in accordance with PSAK 68. If the acquisition is for less than 100% of the acquiree, there is a non-controlling interest. The non-controlling interest represents the equity in a subsidiary that is not attributable, directly or indirectly to the parent. The acquirer can elect to measure the non-controlling interest at its fair value or at its proportionate share of the identifiable net assets, on an acquisition-by-acquisition basis.

The consideration for the combination includes cash and cash equivalents and the fair value of any non-cash consideration given. Any equity instruments issued as part of the consideration are fair valued. If any of the consideration is deferred, it is discounted to reflect its present value at the acquisition date, if the effect of discounting is material. Consideration includes only those amounts paid to the seller in exchange for control of the entity. Consideration excludes amounts paid to settle pre-existing relationships, payments that are contingent on future employee services and acquisition-related costs.

A portion of the consideration may be contingent on the outcome of future events or the acquired entity's performance ('contingent consideration'). Contingent consideration is also recognised at its fair value at the date of acquisition. The accounting for contingent consideration after the date of acquisition depends on whether it is classified as a liability (re-measured to fair value each reporting period through profit and loss) or as equity (no subsequent remeasurement). The classification as either a liability or equity is determined with reference to the guidance in PSAK 50, 'Financial instruments: Presentation'.

Goodwill is recognised for the future economic benefits arising from assets acquired that are not individually identified and separately recognised. Goodwill is the difference between the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the non-controlling interest is measured at its fair value, goodwill includes amounts attributable to the non-controlling interest. If the non-controlling interest is measured at its proportionate share of identifiable net assets, goodwill includes only amounts attributable to the controlling interest – that is the parent. Goodwill is recognised as an asset and tested annually for impairment, or more frequently if there is an indication of impairment.

In rare situations – for example, a bargain purchase as a result of a distressed sale – it is possible that no goodwill will result from the transaction. Rather, a gain will be recognised.

Business combinations between entities under common control are accounted for using the predecessor accounting approach under PSAK 38, ‘Business Combination of Entities under Common Control. In principle, the acquirer will not measure to fair values the assets and liabilities of the acquiree. The difference between the transfer price paid and the carrying value of net assets acquired is presented as part of the acquirer’s Additional Paid in Capital account in equity and is not recycled to profit or loss in the future.

27. Disposal of subsidiaries, businesses and non-current assets – PSAK 58

PSAK 58, 'Non-current assets held for sale and discontinued operations', is relevant when any disposal occurs or is planned. The held-for-sale criteria in PSAK 58 apply to non-current assets (or disposal groups) whose value will be recovered principally through sale rather than through continuing use. The criteria do not apply to assets that are being scrapped, wound down or abandoned.

PSAK 58 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

The non-current asset (or disposal group) is classified as 'held for sale' if it is available for its immediate sale in its present condition and its sale is highly probable. A sale is 'highly probable' where: there is evidence of management commitment; there is an active programme to locate a buyer and complete the plan; the asset is actively marketed for sale at a reasonable price compared to its fair value; the sale is expected to be completed within 12 months of the date of classification; and actions required to complete the plan indicate that it is unlikely that there will be significant changes to the plan or that it will be withdrawn.

A non-current asset (or disposal group) is classified as 'held for distribution to owners' when the entity is committed to such distribution (that is, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable). For a distribution to be highly probable, actions to complete the distribution should have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered in the assessment of 'highly probable'.

Non-current assets (or disposal groups) classified as held for sale or held for distribution are:
- measured at the lower of the carrying amount and fair value less costs to sell;
- not depreciated or amortised; and
- presented separately in the balance sheet (assets and liabilities should not be offset).

A discontinued operation is a component of an entity that can be distinguished operationally and financially for financial reporting purposes from the rest of the entity and:
- represents a separate major line of business or major geographical area of operation;

- is part of a single co-ordinated plan to dispose of a separate major line of business of geographical area of operation; and
- is a subsidiary acquired exclusively with a view for resale.

An operation is classified as discontinued only at the date on which the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation. Although balance sheet information is neither restated nor remeasured for discontinued operations, the statement of comprehensive income information does have to be restated for the comparative period.

Discontinued operations are presented separately in the income statement and the cash flow statement. There are additional disclosure requirements in relation to discontinued operations.

The date of disposal of a subsidiary or disposal group is the date on which control passes. The consolidated income statement includes the results of a subsidiary or disposal group up to the date of disposal; the gain or loss on disposal is the difference between (a) the carrying amount of the net assets plus any attributable goodwill and amounts accumulated in other comprehensive income (for example, foreign translation adjustments and available-for-sale reserves); and (b) the proceeds of sale.

28. Equity accounting – PSAK 15

PSAK 15, 'Investments in associates and joint ventures', requires that interests in such entities are accounted for using the equity method of accounting. An associate is an entity in which the investor has significant influence, but which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not to control those policies. It is presumed to exist when the investor holds at least 20% of the investee's voting power. It is presumed not to exist when less than 20% is held. These presumptions may be rebutted.

A revised version of PSAK 15 was issued following the publication of PSAK 65, PSAK 66, and PSAK 67, 'Disclosure of interests in other entities', also includes the requirement to equity account interests in joint ventures. A joint venture is a joint arrangement where the parties that have joint control and have rights to the arrangement's net assets.

Associates and joint ventures are accounted for using the equity method unless:

- they meet the criteria to be classified as 'held for sale' under PSAK 58 or
- The investment in associate or joint venture is held by:
  - (a) Venture capital organizations; or
  - (b) Mutual funds, unit trusts and similar entities including investment-linked insurance funds.

This exemption from using the equity method is available if the investments are designated as at fair value, with changes in fair value recognized in profit or loss or classified as held for trading and accounted for in accordance with PSAK 55.

Under the equity method, the investment in the associate or joint venture is initially carried at cost. It is increased or decreased to recognise the investor's share of the profit or loss of the associate or joint venture after the date of acquisition.

Investments in associates or joint ventures are classified as non-current assets and presented as one line item in the balance sheet (inclusive of goodwill arising on acquisition). Investments in associates or joint ventures are tested for impairment in accordance with PSAK 48 as single assets if there are impairment indicators under PSAK 55.

If an investor's share of its associate's or joint venture's losses exceeds the carrying amount of the investment, the carrying amount of the investment is reduced to nil. Recognition of further losses are discontinued, unless the investor has an obligation to fund the associate or joint venture or the investor has guaranteed to support the associate or joint venture.

In the separate financial statements of a parent company (that is presented as a supplementary information to its consolidated financial statements), the investments in associates are carried at cost or as financial assets in accordance with PSAK 55, or using equity method.

PSAK 15 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at FVTPL. This election should be made separately for each associate or joint venture at initial recognition.

29. Joint arrangements – PSAK 66

A joint arrangement is a contractual arrangement where at least two parties agree to share control over the activities of the arrangement. Unanimous consent towards decisions about relevant activities between the parties sharing control is a requirement in order to meet the definition of joint control.

Joint arrangements can be joint operations or joint ventures. The classification is principle based and depends on the parties' exposure in relation to the arrangement.

When the parties' exposure to the arrangement only extends to the net assets of the arrangement, the arrangement is a joint venture.

Joint operators have rights to assets and obligations for liabilities. Joint operations are often not structured through separate vehicles.

When a joint arrangement is separated from the parties and included in a separate vehicle, it can be either a joint operation or a joint venture. In such cases, further analysis is required on the legal form of the separate vehicle, the terms and conditions included in the contractual agreement and sometimes, other facts and circumstances. This is because in practice, the latter two can override the principles derived from the legal form of the separate vehicle.

Joint operators account for their rights to assets and obligations for liabilities. Joint ventures account for their interest by using the equity method of accounting.

Other subjects

30. Related-party disclosures – PSAK 7

Under PSAK 7 disclosures are required in respect of an entity's transactions with related parties. Related parties include:

- parents;
- subsidiaries;
- fellow subsidiaries;
- associates of the entity and other members of the group;
- joint ventures of the entity and other members of the group;
- members of key management personnel of the entity or of a parent of the entity (and close members of their families);
- persons with control, joint control or significant influence over the entity (and close members of their families);
- post-employment benefit plans; and
- entities (or any of their group members) providing key management personnel services to the entity or its parent.

Finance providers are not related parties simply because of their normal dealings with the entity.

Management discloses the name of the entity's parent and, if different, the ultimate controlling party (which could be a person). Relationships between a parent and its subsidiaries are disclosed irrespective of whether there have been transactions with them.

Where there have been related-party transactions during the period, management discloses the nature of the relationship and information about the transactions and outstanding balances – including commitments – necessary for users to understand the potential impact of the relationship on the financial statements. Disclosure is made by category of related party and by major type of transaction. Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary for an understanding of the effects of related-party transactions on the entity's financial statements.

Management only discloses that related-party transactions were made on terms equivalent to those that prevail in arm's length transactions if such terms can be substantiated.

An entity is exempt from the disclosure of transactions (and outstanding balances) with a related party that is either a government that has control, joint control or significant influence over the entity, or is another entity that is under the control, joint control or significant influence of the same government as the entity. Where the entity applies the exemption, it discloses the name of the government and the nature of its relationship with the entity. It also discloses the nature and amount of each individually significant transaction and the qualitative or quantitative extent of any collectively significant transactions.

31. Cash flow statements – PSAK 2

The cash flow statement is one of the primary statements in financial reporting (along with the statement of comprehensive income, the balance sheet and the statement of changes in equity). It presents the generation and use of 'cash and cash equivalents' by category (operating, investing and finance) over a specific period of time. It provides users with a basis to assess the entity's ability to generate and utilise its cash.

Operating activities are the entity's revenue-producing activities. Investing activities are the acquisition and disposal of long-term assets (including business combinations) and investments that are not cash equivalents. Financing activities are changes in equity and borrowings.

Management may present operating cash flows by using either the direct method (gross cash receipts/payments) or the indirect method (adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital).

Cash flows from investing and financing activities are reported separately gross (that is, gross cash receipts and gross cash payments) unless they meet certain specified criteria.

The cash flows arising from dividends and interest receipts and payments are classified on a consistent basis and are separately disclosed under the activity appropriate to their nature. Cash flows relating to taxation on income are classified and separately disclosed under operating activities unless they can be specifically attributed to investing or financing activities.

The total that summarises the effect of the operating, investing and financing cash flows is the movement in the balance of cash and cash equivalents for the period.

Separate disclosure is made of significant non-cash transactions (such as the issue of equity for the acquisition of a subsidiary or the acquisition of an asset through a finance lease). Non-cash transactions include impairment losses/reversals; depreciation; amortisation; fair value gains/losses; and income statement charges for provisions.

Beginning 1 January 2018, entities are required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- cash flows, such as drawdowns and repayments of borrowings;
- non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

32. Interim financial reporting – PSAK 3

There is no PSAK requirement for an entity to publish interim financial statements. However, a number of institutions/regulatory agencies either require or recommend their publication, in particular for public companies.

Entities may either prepare full IFAS financial statements (conforming to the requirements of PSAK 1, 'Presentation of financial statements') or condensed financial statements. Condensed reporting is the most common approach. Condensed financial statements include: (i) condensed statement of financial position (balance sheet), (ii) a condensed statement of comprehensive income or, if presented separately, an income statement and other comprehensive income statement, (iii) a condensed statement of cash flows, (iv) a condensed statement of changes in equity, and (v) selected explanatory notes.

An entity should apply accounting policies consistently, for recognising and measuring assets, liabilities, revenues, expenses and gains and losses at interim dates as those to be used in the current year annual financial statements.

There are special measurement requirements for certain costs that can only be determined on an annual basis (for example, items such as tax that is calculated based on an estimated full-year effective rate). It is also acknowledged that the preparation of interim reports generally requires a greater use of estimates than for annual financial reports. An impairment loss recognised in a previous interim period in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost, should not be reversed.

As a minimum, current period and comparative figures (for condensed or full primary statements) are disclosed as follows:

- Statement of financial position (balance sheet) – as of the current interim period end with comparatives for the immediately preceding year end.
- Statement of profit or loss and other comprehensive income (or, if presented separately, income statement and statement of other comprehensive income): for the current interim period and the current-year-to-date information, with comparatives for the equivalent periods in the previous year.
- Cash flow statement and statement of changes in equity: for the current interim period on a year-to-date basis, with comparatives for the same year to date period of the preceding year.
- Explanatory notes.

33. Service concession arrangements – ISAK 16 and ISAK 22

There is no specific PSAK that applies to public-to-private service concession arrangements for delivery of public services. ISAK 16, 'Service concession arrangements', interprets various standards in setting out the accounting requirements for service concession arrangements while ISAK 22 'Services concession arrangements: Disclosures' contains disclosure requirements.

ISAK 16 applies to public-to-private service concession arrangements in which the public sector body (the grantor) controls and/or regulates the services provided with the infrastructure by the private sector entity (the operator).

The concession arrangement also addresses to whom the operator should provide the services and at what price. The grantor controls any significant residual interest in the infrastructure.

As the infrastructure is controlled by the grantor, the operator does not recognise the infrastructure as its property, plant and equipment; nor does the operator recognise a finance lease receivable for leasing the public service infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the assets. The operator recognises a financial asset to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the infrastructure.

The operator recognises an intangible asset to the extent that it receives a right (a licence) to charge users of the public service.

Under both the financial asset and the intangible asset models, the operator accounts for revenue and costs relating to construction or upgrade services in accordance with PSAK 34, 'Construction contracts'. The operator recognises revenue and costs relating to operation services in accordance with PSAK 23, 'Revenue'. Any contractual obligation to maintain or restore infrastructure, except for upgrade services, is recognised in accordance with PSAK 57, 'Provisions, contingent liabilities and contingent assets'.

34. Retirement benefit plans – PSAK 18

Financial statements for retirement benefit plans prepared in accordance with PSAK should comply with PSAK 18, 'Accounting and reporting by retirement benefit plans'. All other standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by PSAK 18.
PSAK 18 requires the report for a defined contribution plan to include:
- a statement of net assets available for benefits;
- a statement of changes in net assets available for benefits;
- a summary of significant accounting policies;
- a description of the plan and the effect of any changes in the plan during the period; and
- a description of the funding policy.

PSAK 18 requires the report for a defined benefit plan to include:
- either a statement that shows the net assets available for benefits, the actuarial present value of promised retirement benefits and the resulting excess or deficit, or a reference to this information in an accompanying actuarial report;
- a statement of net assets available for benefits including a note disclosing the actuarial present value of promised retirement benefits distinguishing between vested benefits and non-vested benefits or a reference to this information in an accompanying actuarial report.

- a summary of significant accounting policies; and
- a description of the plan and the effect of any changes in the plan during the period.

The report also explains the relationship between the actuarial present value of promised retirement benefits, the net assets available for benefits and the policy for the funding of promised benefits. Investments held by all retirement plans (whether defined benefit or defined contribution) are carried at fair value.

35. Tax amnesty assets and liabilities – PSAK 70

PSAK 70 provides accounting policy choices for an entity that recognizes assets and liabilities in accordance with the provisions of the Tax Amnesty Law. The alternative accounting options are:

- To use the existing applicable standards under IFAS; or
- To use the specific provisions in paragraphs 10-23 of PSAK 70 (Optional Approach).

Under the Optional Approach, the recognition criteria of the existing relevant accounting standards shall be applied to the tax amnesty assets and liabilities. Tax amnesty assets shall be initially measured at the amount (i.e. self-assessed fair values) reported in the tax amnesty approval as deemed cost. Any related tax amnesty liability shall be measured at the amount of cash or cash equivalents that will settle the contractual obligation related to the recognized tax amnesty assets. Any difference between amounts initially recognized shall be recorded in equity as additional paid-in capital (APIC). The APIC shall not be recycled to profit or loss or re-classed subsequently to retained earnings.

The redemption money (i.e. amount of tax paid in accordance with Tax Amnesty Law) shall be charged directly to profit or loss in the period the tax amnesty approval was received. Any outstanding balance that relates to a tax disputes (e.g. claims for tax refunds, provision for any uncertain tax positions, deferred tax related to tax loss carry forward, etc.) shall be written off against profit or loss in the period when the tax amnesty approval was received.

After the initial recognition, the tax amnesty assets and liabilities shall be measured in accordance with IFAS.

In the case where amount reported in the tax amnesty approval is not the same as the fair value in accordance with IFAS, an entity is allowed to re-measure those tax amnesty assets and liabilities to their true fair values. However, for the recognition of tax amnesty assets or liabilities that resulted to control over an investee in accordance with PSAK 65, the re-measurement is mandatory. Any difference arising from such re-measurement is adjusted to APIC.

Industry-specific topics

36. Exploration for and evaluation of mineral reserve – PSAK 64

PSAK 70 provides accounting policy choices for an entity PSAK 64 addresses the financial reporting for the exploration for and evaluation of mineral resources. It does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral reserves (such as activities before an entity has acquired the legal right to explore or after the technical feasibility and commercial viability to extract resources have been demonstrated).

Activities outside the scope of PSAK 64 are accounted for according to the applicable standards (such as PSAK 16, PSAK 57 and PSAK 19).

The accounting policy adopted for the recognition of exploration and evaluation assets should result in information that is relevant and reliable. The accounting policy may be changed only if the change makes the financial statements more relevant and no less reliable, or more reliable and no less relevant – in other words, if the new accounting policy takes it closer to the requirements in the PSAK's Framework.

Exploration and evaluation assets are initially measured at cost. They are classified as tangible or intangible assets, according to the nature of the assets acquired. Management applies that classification consistently. After recognition, management applies either the cost model or the revaluation model to the exploration and evaluation assets, based on PSAK 16 or PSAK 19, according to nature of the assets. As soon as technical feasibility and commercial viability are determined, the assets are no longer classified as exploration and evaluation assets.

The exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amounts may not be recovered. The assets are also tested for impairment before reclassification out of exploration and evaluation. The impairment is measured, presented and disclosed according to PSAK 48 except that exploration and evaluation assets are allocated to cash-generating units or groups of cash-generating units no larger than a segment. Management discloses the accounting policy adopted, as well as the amount of assets, liabilities, income and expense and investing cash flows arising from the exploration and evaluation of mineral resources.

ISAK 29 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

37. Real estate development activities – PSAK 44

PSAK 44 regulates specific provisions with regard to revenue recognition of different types of real estate development, cost components, and allowance allocation.

Revenue from the sale of house, shophouses, other similar type of buildings including the land is recognised using the full accrual method if certain criteria are met. Otherwise, it is recognised by the deposit method until all criteria for applying the full accrual method are satisfied.

Revenue from the sale of condominiums, apartments, office buildings, shopping centres and other similar types of buildings, and units in time-sharing ownership are recognised based on the percentage-of-completion method if criteria are met. Otherwise, the cash received from the buyer is recognised by the deposit method until all criteria for applying percentage-of-completion method are satisfied. If construction process of condominiums, apartments, office buildings, shopping centres and other similar types of buildings, and units in time-sharing ownership has been completed, revenue is recognised by the full accruals method if certain criteria are met.

Revenue from the sale of plots of land without buildings is recognised using the full accrual method upon the sale commitment, if criteria are met. Otherwise, it is recognised by the deposit method.

Costs directly related to real estate development activities and indirect project costs related to several real estate projects are allocated and capitalised to the real estate development project. Costs which are not clearly related to a certain real estate project, such as general and administrative expenses, are expensed as incurred.

Costs that have been capitalised to the real estate development project should be allocated to each real estate unit using the specific-identification method. If the specific-identification method cannot be applied, then the capitalised cost should be allocated based on the selling price ratio. If the selling price ratio cannot be applied, then those capitalised cost should be allocated on an area-wide basis or another method which is appropriate to the real estate development project conditions. This method must be applied consistently.

PSAK 44 will be superseded upon adoption of PSAK 72 effective 1 January 2020.

38. Agriculture – PSAK 69

Agricultural activity is defined as the management of biological transformation and harvest of biological assets (living animals and plants) for sale or for conversion into agricultural produce (harvested product of biological assets) or into additional biological assets.

Biological assets that meet the definition of 'bearer plants' are measured either at cost or revalued amounts, less accumulated depreciation and impairment losses under PSAK 16.

All other biological assets, including produce growing on a bearer plants, are usually measured at fair value less costs to sell, with the change in the carrying amount reported as part of profit or loss from operating activities. Agricultural produce harvested from an entity's biological assets is measured at fair value less costs to sell at the point of harvest.

The fair value is measured in terms of PSAK 68.

PSAK 68 looks to the principal market for the asset and not entity-specific measures. The fair value measurement should represent the price in the principal market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date. [PSAK 68 para 18]. In the absence of a principal market, the entity should use the price in the most advantageous market for the relevant asset.

Index by standard and interpretation

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