



PSAK Pocket Guide 2023

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 on or after 1 January 2023, unless otherwise indicated. It does not address in detail the disclosure requirements under those standards.

This publication does not include additional specific requirements applicable for syariah transactions as prescribed by Indonesian Syariah Accounting Standard Board. This publication also does not include any standard that has been issued but not yet effective and/or mandatory to be applied for annual reporting periods beginning on 1 January 2024.

This summary is not a substitute for reading the accounting standards and interpretations themselves. While every effort has been made to ensure accuracy, this publication is not comprehensive and information may have been omitted which may be relevant to a particular user.

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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
- Index by standards and interpretation

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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 Accounting Standards), the local accounting standard board – Indonesian Financial Accounting Standards Board (DSAK-IAI) adopts several standard amendments and annual improvements.

In the latest convergence process to IFRS Accounting Standards, DSAK-IAI has issued PSAK 74 in November 2020 which adopted IFRS 17 Insurance Contracts. The issuance of this standard superseded the PSAK 62, PSAK 28 and PSAK 36 and will be effective on 1 January 2025, early application is permitted.

DSAK-IAI works hard to ensure sufficient transition period for new standards or amendments and minimize the gap between the IFRS Accounting Standards and IFAS. Related to these matters, DSAK IAI has released Standar Akuntansi Keuangan Internasional (SAK International) in May 2023. This will be a new pillar among the other accounting standards pillars (Umum, EMKM and private entities Pillars) in Indonesia's financial reporting environment.

The set of standards in SAK International are a word-to-word translation from IFRS Accounting Standards, which make the entities prepare the financial statements under SAK International equivalent/identical with their IFRS financial statements. Up to date of this publication, the regulations around the implementation are still being discussed by the capital market regulator.

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-oriented 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;
- notes to the financial statements; and
- 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). The main sections of the Framework are:

- Status and purpose of the Conceptual Framework;
- The objective of general purpose financial reporting;

- Qualitative characteristics of useful financial information;
- Financial statements and the reporting entity;
- The elements of financial statements;
- Recognition and derecognition;
- Measurement;
- Presentation and disclosure;
- Concepts of capital and capital maintenance; and
- Appendix – Defined terms. .

3. Presentation of financial statements – PSAK 1 and 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, using 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, 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 owner of the parent; 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 profit or loss and other 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 profit or loss and other 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 profit or loss and comprehensive income:

- Revenue, presenting separately interest revenue calculated using the effective interest method.
- Gains and losses arising from the derecognition of financial assets measured at amortised cost.

- Finance costs;
- Impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with PSAK 71;
- Share of the profit or loss of associates and joint ventures accounted for using the equity method;
- Gain arising on reclassification of a financial asset from the amortised cost category to fair value through profit or loss (FVPL);
- Cumulative gain or loss on reclassification of a financial asset from the fair value through other comprehensive income (FVOCI) category to FVPL that was previously recognised in other comprehensive income and is reclassified to profit or loss;
- Tax expense; and
- A single amount for the 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 on the face of the primary statement or in the notes. Such income/expenses might include restructuring provisions or reversal; write-downs of inventories or impairments of property, plant and equipment as well as their reversals; litigation settlements; gains or losses on disposals of non-current assets.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those reports, which provide financial information about a reporting entity.

Materiality depends on the nature or magnitude of information, or both, and judgment as to whether information is material should be made in the context of an entity's financial statements as a whole.

The PSAK 1 clarifies that a reporting entity should not present a material item, transaction or other event in an obscure manner.

Other comprehensive income

An entity shall present items of other comprehensive income to be classified by nature and grouped into those that will be reclassified subsequently to profit or loss, and those that will not be reclassified. An entity discloses 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, analysed into those items that will 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 recognised 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 ‘Statement of Cash Flows’.

Notes to the financial statements

The notes are an integral part of the financial statements. Notes provide information required in PSAK or additional information that is not presented in the ‘primary’ statements. They also include the basis of preparation, material accounting policies and critical accounting estimates and judgments.

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 judgment 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 considers 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 can 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 items, 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 or interpretation are accounted for in accordance with the transitional provisions (if any) within that standard or interpretation. If a change in policy upon initial application of a new standard does not include specific transitional 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.

There is also a specific exception for the initial adoption of a policy to measure property, plant and equipment or intangible assets by applying the revaluation model, which would be accounted for in the year the change is being made.

An entity also makes a change in accounting policy when it provides more reliable and relevant information regarding the impact of transactions, events or other conditions that reflect on the entity's financial position, financial performance or cash flows.

The IFRS Interpretations Committee (IFRIC) often reviews newly identified issues in financial reporting that are not specifically addressed in the standards and issues interpretative guidance through its agenda decisions. IFRIC's agenda decisions may also lead to a change in accounting policy for PSAK reporters. Such changes are generally treated as voluntary changes in accounting policies, unless an entity determines that it relates to a correction of an error. If affected by the IFRIC's agenda decision, PSAK reporters should assess whether a change in accounting policy is required and how much time is needed to implement any change. Where the entity has concluded that an accounting policy should be changed but that change has not been made yet, the entity should consider providing disclosures similar to those provided about forthcoming standards.

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 new standard will have on the entity's financial statements in the period of initial recognition.

Changes in accounting estimates

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. Entity may require to change their accounting estimate if there is a change in the circumstances on which the accounting estimate is based or due to new information, new developments or additional experience.

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, if applicable), except where 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 might arise from mistakes (mathematical or application of accounting policies), oversights or misinterpretation of facts, and fraud.

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, in its absence, most advantageous) market; and the valuation technique. [PSAK 68 para PP02].

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

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

Objectives, definitions and scope

Financial instruments are addressed in the following standards and interpretation:

- PSAK 71, ‘Financial Instruments’;
- PSAK 55, ‘Financial Instruments: Recognition and measurements’;
- PSAK 60, ‘Financial instruments: Disclosure’, which deals with disclosures;
- PSAK 50, ‘Financial instruments: Presentation’, which deals with distinguishing debt from equity and with offsetting; and
- ISAK 28, ‘Extinguishing financial liabilities with equity instruments’

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

The standards’ scope is broad. The standards cover all types of financial instruments, including receivables, payables, investments in bonds and shares, 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.

In addition, requirements for fair value measurement and disclosures are covered by PSAK 68.

PSAK 50 establishes principles for presenting financial instruments as financial liabilities or equity, and for offsetting financial assets and financial liabilities. Financial instruments represent contractual rights or obligations to receive or pay cash or other financial assets.

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 favorable; 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 unfavorable.

An equity instrument is any contract that evidences a residual interest in the entity's assets after deducting all of its liabilities.

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

PSAK 71 has three classification categories: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit and loss (FVPL). 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 (SPPI). However, at initial recognition an entity can 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 OCI rather than profit or loss, provided that the instrument is not held for trading. PSAK 71 removes the cost exemption for unquoted equities and derivatives on unquoted equities, but it provides guidance on when cost might be an appropriate estimate of fair value.

Under PSAK 71, financial liabilities continue to be measured at amortised cost, unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss. However, PSAK71 changes the accounting for those financial liabilities where the fair value option has been elected. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI.

Embedded derivatives

Some financial instruments and other contracts combine a derivative and a non-derivative host contract 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 might vary with changes in a stock market index. In this case, the embedded derivative is an equity derivative on the relevant stock market index.

A financial asset host that is within the scope of PSAK 71 is not assessed for embedded derivatives, because the solely payments of SPPI criterion is applied to the entire hybrid contract to determine the appropriate measurement category. Embedded derivatives that are not 'closely related' to the host contract are separated and accounted for as stand-alone derivatives (that is, measured at fair value, 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 71 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 71.

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 where it represents a residual interest in the issuer's assets after deducting all of its liabilities; or, put another way, where 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 of 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 that they have particular features and meet specific conditions:

- Puttable financial instruments (for example, some shares issued by co-operative entities, funds 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 might 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 components (being the option to convert if all of the criteria for equity are met).

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.

Recognition

Recognition for financial assets and financial liabilities tends to be straightforward. An entity recognises a financial asset or a financial liability at the time when 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.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the entity has transferred substantially all the risks and rewards of ownership. If the entity neither retains nor transfers substantially all the risks and rewards, but has not retained control of the financial assets, it also derecognises the financial assets. When control of the transferred financial asset is retained, the accounting can be complex.

An entity may only cease to recognise (derecognise) a financial liability when it is extinguished – that is, when the obligation is discharged, canceled 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 71 provides 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.

Impairment

The impairment rules of PSAK 71 require a forward-looking expected credit loss ('ECL') impairment model.

The impairment model introduces a three-stage approach, depending on the credit risk assessment at initial recognition.

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 ECL (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 where 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).

For trade receivables or contract assets that do not contain a significant financing component, the loss allowance should be measured, at initial recognition and throughout the life of the receivable, at an amount equal to lifetime ECL. As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using 12-month ECL, and so it does not have to assess whether a significant increase in credit risk has occurred.

In many cases, application of the impairment rules in PSAK 71 requires significant judgment – 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.

Hedge accounting

‘Hedging’ is a risk management activity. More specifically, it 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 hedging instrument.

To qualify for hedge accounting, PSAK 71 includes the following requirements:

- An entity should formally designate and document the hedging relationship at the inception of the hedge. This includes identifying the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess hedge effectiveness, identification of sources of ineffectiveness, how the hedge ratio will be determined, and the entity’s risk management objective and strategy for undertaking the hedge.
- There must be an economic relationship between the hedging instrument and the hedged item. There must be an expectation that the value of the hedging instrument and the value of the hedged item will move in the opposite direction as a result of the common underlying or hedged risk.

- Credit risk should not dominate value changes. Even if there is an economic relationship, a change in the credit risk of the hedging instrument or the hedged item must not be of such magnitude that it dominates the value changes that result from that economic relationship.
- The designated hedge ratio should be consistent with the risk management strategy. The hedge ratio is defined as the relationship between the quantity of the hedging instrument and the quantity of the hedged item, in terms of their relative weighting.

There is no 80–125% effectiveness ‘bright line’. As such, a retrospective effectiveness test is no longer required to prove that the effectiveness was between 80% and 125%. However, all ineffectiveness should still be calculated and recorded in the income statement.

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 a 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 lower of the fair value change of the hedging instrument and that of the hedged item. Where the hedging instrument has a fair value change greater than the hedged item, the excess is recorded within 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 carrying amount of the non-financial asset or liability is adjusted for the hedging gain or loss at initial recognition.

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

Furthermore, ISAK 13 provides further guidance for an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with PSAK 71.

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 judgments about risks arising from entities' use of financial instruments and their associated returns.

PSAK 60 sets 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 it 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.

IBOR Reform

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. Many uncertainties remain but the roadmap to replacement is becoming clearer. The DSAK-IAI has embarked on a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform.

Phase 1 provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement under both PSAK 55 and PSAK 71.

The key reliefs provided by the amendments relate to:

- Risk components.
- 'Highly probable' requirement.
- Prospective assessments (economic relationship or expected to be 'highly effective').
- PSAK 55 retrospective effectiveness test.
- Recycling of the cash flow hedging reserve.

Phase 2 addresses issues that arise once an existing interest rate is replaced with an alternative interest rate. The key reliefs provided by the Phase 2 amendments are as follows:

- Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement.
- Hedge accounting. The hedge accounting reliefs will allow most PSAK 55 or PSAK 71 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.
- Disclosure. The two-phase project requires entities to provide additional disclosures in their financial statements so that investors can better understand the impact of reforming interest rate benchmarks on the company. These additional disclosures include presenting information about: (i) the nature and extent of the risks faced by the entity arising from financial instruments subject to interest rate benchmark reforms, and how the entity manages those risks; and (ii) the entity's progress in completing the transition to an alternative interest rate reference, and how the entity is managing the transition.

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) might be denominated in foreign currencies. These transactions are expressed in the entity's own currency ('functional currency') for financial reporting purposes.
- A parent entity might have foreign operations such as overseas subsidiaries, branches or associates. The functional currency of these foreign operations might be different from 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 an entity's functional currency, using the exchange rate at the transaction date. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income.

Foreign currency balances representing cash or amounts to be received or paid in cash ('monetary items') are re-translated 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.

ISAK 33, Foreign Currency Transactions and Advance Consideration, provides further guidance on how to determine the date of the transaction when applying the standard on foreign currency transactions.

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.

PSAK 63

Conventional financial reporting is distorted by inflation. This is especially the case with hyper-inflation, where the measuring unit (the currency unit) is not stable. Adjustments to stabilise the unit of measurement – to measure items in units of constant purchasing power – make the financial statements more relevant and reliable. PSAK 63 requires financial statements prepared in the currency of a hyper-inflationary economy to be stated in terms of the value of money at the end of the reporting period. This requirement

relies on an understanding of complex economic concepts, a knowledge of the entity's financial and operating patterns, and a detailed series of procedures.

Prices change over time, as the result of political, economic and social factors. Two phenomena should be distinguished: (1) changes in supply and demand and technological changes might cause prices of individual items to increase or decrease independently of each other ('specific price changes'); and (2) other factors in the economy might result in changes in the general level of prices, and therefore in the general purchasing power of money ('general price changes'). The purchasing power of money declines as the level of prices of goods and services rises. The purchasing power of money in an inflationary environment and the price level are interdependent.

Financial statements, unadjusted for inflation in most countries, are prepared on the basis of historical cost, without regard either to changes in the general level of prices or to changes in specific prices of assets held. However, there are exceptions where the entity is required to, or chooses to, measure certain assets or liabilities at fair value. Examples are property, plant and equipment, which could be revalued to fair value under PSAK 16, and biological assets, which are generally required to be measured at fair value by PSAK 69. This produces a meaningful result, provided that there are no dramatic changes in the purchasing power of money.

Significant changes in the purchasing power of money, particularly in a hyper-inflationary economy, mean that financial statements unadjusted for inflation are not useful and are likely to be misleading. Amounts are not comparable between periods, or even within a period, and the gain or loss in general purchasing power that arises in the reporting period is not recorded. Financial statements unadjusted for inflation do not properly reflect the company's position at the end of the reporting period, the results of its operations or its cash flows. In a hyperinflationary economy, financial statements, whether they are based on an historical cost approach or a current cost approach, are useful only if they are expressed in terms of the measuring unit current at the end of the reporting period.

Inflation-adjusted financial statements are an extension to, and not a departure from, historical cost accounting. PSAK 63 aims to overcome the limitations of historical cost financial reporting in hyper-inflationary environments, but it does not reflect specific price changes in assets and liabilities.

Furthermore, ISAK 19 provides guidance on how to apply the requirements of PSAK 63 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with PSAK 63.

8. Revenue and government grants – PSAK 72 and PSAK 61

Revenue from contracts with customers

Revenue is income arising in the course of an entity's ordinary activities. The core principle of PSAK 72 (the revenue standard) is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration expected in exchange for transferring those goods or services to the customer.

PSAK 72 applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, and financial instruments. Other items (interest and dividends) might also be presented as revenue because they arise from an entity's ordinary activities but are not within the scope of the revenue standard. Only contracts with customers are in the scope of the revenue standard. Entities need to assess whether a counterparty is a customer to determine if the arrangement is in the scope of PSAK 72 (for example, certain co-development projects).

PSAK 72 sets out a five-step model for recognising revenue based on satisfaction of performance obligations with very detailed guidance behind each step:

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. Under IFAS, the term 'probable' means 'more likely than not' (that is, greater than 50% likelihood).

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 goods 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 catchup 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.

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 goods or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the goods 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 considerations 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. Judgment 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 judgment. 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 judgment 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.

Government grants – PSAK 61

Government grants are assistance by the government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Such government grants may be given to an entity to help finance a particular asset or other expenditure.

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.

Furthermore, ISAK 18 provides more guidance for government assistance that has no specific relation to operating activities.

Grants related to income are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate for. They are either offset against the related expense or presented as income, either separately or under

a general heading such as 'other income'. The timing of such recognition in profit or loss will also depend on the fulfillment 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.

9. 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').

Although 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 aggregations 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 judgment.

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.

10. 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 short-term employee benefits (such as wages, profit-sharing, bonuses, non-monetary benefits and compensated absences, such as paid holiday and long-service leave), post-employment benefits (such as retirement benefit plans), other long-term benefits (such as long-service leave) and termination benefits (such as severance and redundancy pay). PSAK 24 is relevant for all employee benefits except for those to which PSAK 53.

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.

Post-employment benefits include pensions, post-employment life insurance and post-employment medical

care. Pensions are provided to employees either through defined contribution plans or defined benefit plans.

Defined contribution plans

Accounting for defined contribution plans is straightforward: 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 discount rate, future increases in salaries and medical costs) are made and included in a valuation model. The resulting benefit obligation is then discounted to a 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 remeasurement gains and losses.

Remeasurement 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). Remeasurements 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. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula from the date when service by the employee first leads to benefits under the plan until the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases. In April 2022, DSAK-IAI has issued a press release, in response to response to the IFRS Interpretation Committee Agenda Decision: IAS 19 Employee Benefit – Attributing Benefit to Periods of Service (“IFRIC AD”) in May 2021, to clarify how to determine the period over which an entity should attribute the benefit for the pension benefit scheme introduced by the Labor Law in Indonesia.

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].

An entity shall calculate net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate. The entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period (unless there is a plan amendment, curtailment or settlement during the reporting period). It shall also take into account any changes in the net defined benefit liability (asset) resulting from contributions to the plan or benefit payments. 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.

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. A settlement is defined as ‘a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan’ (other than benefit payments). Settlement gains or losses are recognised in the income statement when the settlement occurs.

Where changes in the terms or membership of a defined benefit plan result in the amendment, curtailment or settlement, PSAK 24 requires to remeasure the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of amendment.

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.

11. 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. Typically, share-based payment transactions 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 remeasured 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.

12. Taxation – PSAK 46

PSAK 46

PSAK 46 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 recognise 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, that affects neither accounting profit nor taxable profit, and does not give rise to equal taxable and deductible temporary differences; 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.

ISAK 34, 'Uncertainty over income tax treatments'

PSAK 46 does not address how to account for uncertainties in income taxes. For that reason, ISAK 34 was published, which clarifies how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, using the principles in PSAK 46. An uncertain tax treatment is defined as any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. The interpretation provides a framework on how to consider and account for the impact of tax uncertainties.

ISAK 20, 'Income Taxes-Changes in the Tax Status of an Entity or its Shareholders'

Furthermore, ISAK 20 provides guidance on how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.

13. 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 in 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

14. 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.

Furthermore, ISAK 14 provides the guidance for accounting treatment over internal expenditure on the development and operation of the entity's web site.

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.

15. 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.

Proceeds from selling any items produced before intended use (such as samples produced when testing the asset) is

functioning properly) are recognised in profit or loss while the cost of the item is recognised in accordance with PSAK 14: Inventories. Cost of testing is not reduced by the net proceeds received from selling items produced while the entity is preparing the PPE for its intended use.

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

PPE might 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.

Cost to acquire the land rights in Indonesia may be treated as an asset purchase or a lease, depending on the substance of the transaction and unique facts and circumstances. In November 2020 DSAK-IAI issued ISAK 36, Land Rights, that clarifies the interaction between PSAK 16 and PSAK 73. The interpretation provides guidance to determine whether the accounting for the land rights are

scope of PSAK 16 or scope of PSAK 73. The substance of transaction and contractual rights and obligations are the main consideration to define the accounting treatment of land rights, instead of its legal form.

Borrowing costs

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

16. 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 evidence of change in use. A change in intention is not enough to support the transfer of a change in use.

17. 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 should not be carried on the balance sheet above its recoverable amount. Recoverable amount is 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 value 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 amortised, 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. 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.

18. Lease accounting – PSAK 73

PSAK 73

A lease is 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 ‘right-of-use asset’ and a corresponding ‘lease liability’ for almost all lease contracts. This is based on the principle that, in economic terms, a lease contract is the acquisition of a right to use an underlying asset with the purchase price paid in installments. PSAK 73 gives lessees optional exemptions for certain short-term leases and leases of low-value assets.

The lease liability is initially recognised at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. The right-of-use asset is initially measured at cost, consisting of the amount equal to the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. The provision for the restoration costs is recognised as a separate liability.

Lease payments include (a) fixed payments (including, in-substance fixed) less any lease incentives receivable; (b)

variable lease payments that depend on an index or a rate; (c) residual value guarantees by the lessee; (d) the exercise price of a purchase option (if the lessee is reasonably certain to exercise that option); and (e) penalties for terminating the lease (if the lease term reflects the lessee exercising the option to terminate the lease).

The lessee should use the rate of interest that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor ('interest rate implicit in the lease'). However, if such rate cannot be readily determined, the lessee should instead use the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment ('incremental borrowing rate').

The lessee will measure the lease liability in subsequent periods using the effective interest rate method. The right-of-use asset is depreciated in accordance with the requirements in PSAK 16, 'Property, Plant and Equipment'. The lessee must also apply the impairment requirements in PSAK 48, 'Impairment of assets', to the right-of-use asset.

In the income statement, the lessee 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 activities or financing activities (in accordance with the entity's accounting policy regarding the presentation of interest payments). 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.

Lessors have 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.

A sublease is classified as an operating or finance lease with reference to the right of use asset. If the head lease is a short-term lease, the sublease shall be classified as an operating lease. For a sublease that results in a finance lease, the intermediate lessor is not permitted to offset the remaining lease liability (from the head lease) and the lease receivable (from the sublease). The same is true for the lease income and lease expense relating to head lease and sublease of the same underlying asset.

PSAK 73 includes specific rules for lease modifications for lessees and lessors.

In relation to transactions in which the owner of an asset sells the asset and leases it back from the buyer ('sale and leaseback transactions'), PSAK 73 requires to assess whether the transaction qualifies as a sale for which revenue is recognised under PSAK 72. Where control of the asset is transferred to the buyer (lessor) and the transfer is classified as a sale, the seller (lessee) measures a right-of-use asset arising from the leaseback as the proportion of the previous carrying amount of the asset that relates to the right of use retained. The gain (or loss) that the lessee recognises is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the lessor. If the transfer does not qualify as a sale under PSAK 72, the seller-lessee does not derecognise the transferred asset and accounts for the cash received as a financial liability and the buyer will recognise a financial asset (receivable).

19. 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 could be justified where inventories have a different nature or use. The cost formula used is applied on a consistent basis from period to period.

20. 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 is *'a liability of uncertain timing or amount'*.

Recognition and initial measurement

A provision is recognised when: the entity has a present obligation as a result of past events; it is probable (that is, more likely than not) that a transfer of economic benefits 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 present obligation at the balance sheet date, measured at the present value of the expected cash outflow where the effect of the time value of money is material. Provisions are not recognised for future operating losses.

A present obligation arises from an obligating event, and it 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 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 has 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 recognised 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 or 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).

A 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 recognised 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 recognised should not exceed the amount of the related provision. Expenses relating to a provision can be presented net of the amount recognised for a reimbursement in the income statement.

Subsequent measurement

Provisions should be reassessed 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 unwinding 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.

ISAK 9, Changes in Existing Decommissioning, Restoration and Similar Liabilities

Many entities have obligations to disassemble, move and restore fixed assets. The initial estimates of such costs are recorded as liabilities under PSAK 57 and next included in the carrying amount of the related items of property, plant and equipment in accordance with PSAK 16, Fixed Assets.

ISAK 9 clarifies how to account for changes in any existing decommissioning, restoration or similar provisions where the related costs are recognised as part of the cost of an item of property, plant and equipment.

Changes to decommissioning, restoration and similar provisions are added to or deducted from the carrying amount of the related fixed asset. However, the underlying asset cannot decrease below zero (in which case the excess is recorded in profit or loss) or increase above its recoverable amount. ISAK 9 also clarifies that the periodic unwinding of the discount is recognised in profit or loss as a finance cost and cannot be capitalised in accordance with PSAK 26, Borrowing Costs.

Onerous contracts

An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under that contract. The present obligation under an onerous contract is recognised and measured as a provision. In calculating the provision for onerous contracts, the entities should include:

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

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

21. 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 or changes in tax laws or rates substantively enacted or after the balance sheet date.

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, destruction of a

major production plant by fire, or abnormally large changes after the reporting period in asset prices or foreign exchange rates, are disclosed.

Dividends

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. However, the details of these dividends are disclosed. Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its owners acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative. ISAK 11 provides guidance on how an entity should account for such distributions.

Financial commitments

If an entity enters into any significant commitment or contingent liability after the period ends, it must be disclosed as a non-adjusting event. Disclosure is required for if an entity enters into any significant commitment or contingent liability after the period end, but other standards require disclosure of commitments that exist at the balance sheet date will affect future periods, such as capital commitments, future lease payments not yet included in lease liabilities, commitments in respect of investment properties and disclosures required by PSAK 60, Financial

Instruments: Disclosures, and PSAK 67, Disclosures of Interests in Other Entities.

Date of authorisation of the financial statements for issue

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

22. 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 might 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 derecognition of assets or liabilities arising on the equity issue (the proceeds of issue) after deducting directly attributable transaction costs. Equity instruments are not remeasured 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

23. 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 a 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 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 record most controlled investments at fair value through profit or loss under PSAK 71.

PSAK 65 does not contain any disclosure requirements; these are included within PSAK 67, Disclosure of Interest in Other Entities. 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.

24. 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 71, or using the equity method in presenting the separate financial statements as supplementary information to the consolidated financial statements.

25. Business combinations – PSAK 22 and PSAK 38

A business combination is a transaction or event in which an entity ('acquirer') obtains control of one or more businesses ('acquirees'). To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. PSAK 22 also provides an optional 'concentration test' that, if met, eliminates the need for further assessment.

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 might 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 is a number of transactions among the parties involved. For example, any transaction contingent on the completion of another transaction might be considered linked. Judgment 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 views a business combination from the perspective of the acquirer, and it 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 pooling of interest method under PSAK 38, 'Business Combination of Entities under Common Control. That is, the acquirer should incorporate the financial position and all results of operations of the acquired entity as if both entities (acquirer and acquiree) had always been combined. A restatement of prior period results is necessary.

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.

Entity applying PSAK 22 should refer to PSAK 57 or ISAK 30 for recognition of provision or contingent liabilities arising from business combination at the acquisition date.

26. 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, including distribution of non-current assets to shareholders. 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 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 or major geographical area of operation; or
- is a subsidiary acquired exclusively with a view for resale.

An operation is classified as discontinued only at the date on which it 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.

27. 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.

The equity method of accounting also applies to interests in joint ventures. A joint venture is a joint arrangement where the parties that have joint control have rights to the arrangement's net assets.

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. 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 15.

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 15 (as amended by PSAK 71).

An entity applies PSAK 71 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. If an investor's share of its associate's or joint venture's losses exceeds the carrying amount of the investment (which, for this purpose, includes other long-term interests that, in substance, form part of the entity's investment in the associate or the joint venture), 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 supplementary information to its consolidated financial statements), the investments in associates or joint ventures are carried at cost or as financial assets in accordance with PSAK 71, or using the equity method.

28. 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

29. 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, as well as 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.

30. 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 financing) 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 (for example, the issue of equity for the acquisition of a subsidiary). Non-cash transactions include impairment losses/ reversals; depreciation; amortisation; fair value gains/losses; and income statement charges for provisions.

Additional disclosures are required to explain changes in liabilities arising from financing activities, distinguishing cash flows from non-cash changes.

31. 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 can prepare full IFAS financial statements (conforming to the requirements of PSAK 1, ‘Presentation of financial statements’) or condensed financial statements. Condensed financial statements include: (i) a 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 compared to 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 shall be 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 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 end of the current interim period, with comparatives for the immediately preceding year end.
- Statement of 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 equivalent period in the previous year.

PSAK 3 sets out criteria to determine what information should be disclosed in the interim financial statements.

These include:

- Materiality to the overall interim financial statements;
- Unusual or non-recurring items;

- Changes since previous reporting periods that have a significant effect on the interim financial statements (of the current or previous reporting financial year); and
- Relevant information for understanding the estimates used in the interim financial statements.

The overriding objective is to include an explanation of events and transactions that are significant to understand the changes in the entity's financial position and performance since the end of the last annual reporting period.

Furthermore, ISAK 17 addresses the interaction between the requirements of PSAK 3 and the recognition of impairment losses on goodwill in PSAK 48, and the effect of that interaction on subsequent interim and annual financial statements specific issues regarding the impairment loss of goodwill. Under ISAK 17, the entity shall not reverse an impairment loss recognised in the previous interim period in respect of goodwill.

32. 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 subsequent accounting of the financial asset should consider the guidance in PSAK 71 'Financial Instruments'.

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

The operator accounts for revenue and costs relating to construction or upgrade services and operation services in accordance with PSAK 72 'Revenue from contract with customers'. 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'.

33. 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 (distinguishing between vested benefits and non-vested 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.

34. Tax amnesty assets and liabilities – PSAK 70

PSAK 70 provides accounting policy choices for an entity that recognises 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 recognised tax amnesty assets. Any difference between amounts initially recognised 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 dispute (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 the 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 in 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.

35. Presentation of not-for-profit oriented entity financial statements – ISAK 35

DSAK-IAI has published ISAK 35, Presentation of not-for-profit oriented entity financial statements to give guidance related to the presentation of the financial statements of not-for-profit oriented entities.

The interpretation applies together with PSAK 1 in the preparation and presentation of general purpose financial statements by not-for-profit reporting entities, regardless of their legal status and structure. Essentially, ISAK 35 provides guidance on how paragraph 5 in PSAK 1 applies to not-for-profit oriented entities and includes illustrative examples how a not-for-profit oriented entity may amend the descriptions of line items presented in the financial statements and/or use the titles for the financial statements themselves that are more suitable for not-for-profit activities. Additionally, ISAK 35 clarifies how assets contributed by a donor to a not-for-profit organisation should be presented as restricted or unrestricted resources based on the donor-imposed criteria.

ISAK 35 also applies to the financial statements of not-for-profit small to medium-size organisations that apply the Indonesian accounting standard without public accountability (SAK ETAP).

Industry-specific topics

36. Exploration for and evaluation of mineral resources – PSAK 64 and ISAK 29

PSAK 64, 'Exploration for and evaluation of mineral resources', 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, 'Property, plant and equipment', PSAK 57, 'Provisions, contingent liabilities and contingent assets', and PSAK 19, 'Intangible assets').

The accounting policy adopted for the recognition of exploration and evaluation assets should result in information that is relevant and reliable. As a concession, certain further rules of PSAK 25 need not be applied. This permits companies in the extractive sector to continue, for the time being, to apply policies that were followed under national GAAP that would not comply with the requirements of PSAK. 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 the 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, Stripping costs in the production phase of a surface mine, applies to waste removal costs incurred in surface mining activity during the production phase.

37. 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 plant, 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.

In calculating the fair value, the entity does not take into account cash flows for financing the assets or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

38. Insurance contracts – PSAK 62 and PSAK 74

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.

PSAK 62 was designed as an interim standard, pending implementation of PSAK 74. 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.

Accounting policies modeled on PSAK 57, ‘Provisions, contingent liabilities and contingent assets’, are appropriate in cases where the issuer is not an insurance company and where there is no specific local GAAP for insurance

contracts (or the local GAAP is only directed at insurance companies).

Disclosure is particularly important for information relating to insurance contracts, because entities can continue to use local GAAP accounting policies for measurement. 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; and
- Enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

PSAK 74

In November 2020, the DSAK-IAI issued PSAK 74, ‘Insurance contracts’, and thereby started a new epoch of accounting for insurers. PSAK 74 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to the new guidance will have an impact on financial statements and on key performance indicators.

Under PSAK 74, the ‘general model’ requires entities to measure an insurance contract, at initial recognition, at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial

risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the ‘premium allocation approach’. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the ‘variable fee approach’ applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

Transition

PSAK 74 is applicable for annual periods beginning on or after 1 January 2025, early application is permitted. The standard can be applied retrospectively in accordance with PSAK 25, but it also contains a ‘modified retrospective approach’ and a ‘fair value approach’ for transition, depending on the availability of data.

On transition, an entity should apply PSAK 74 retrospectively, unless it is impracticable to do so. An entity should apply a modified retrospective approach or fair value approach if it is impracticable to apply PSAK 74 retrospectively for a group of insurance contracts.

An entity that first applies PSAK 74 and PSAK 71 at the same time, to account for the financial assets it hold to back the obligations arising from insurance contracts, can choose to apply the classification overlay for presenting comparative information. The classification overlay allows an insurer to classify and measure eligible financial assets in the comparative period in a way that aligns with how the insurer expects such assets to be classified on initial application of PSAK 71.

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