Accounting News Flash

January 2018

ARE YOU READY?

Which standards are mandatory for your financial year?

A number of new standards, amendments and interpretations have been issued up to 31 December 2017. This publication lists those new requirements.

New currently effective requirements: Recent changes to SAK that are required to be applied by an entity with an annual reporting period beginning on 1 January 2017.

Effective date	New amendments or interpretations
1 January 2017	Disclosure Initiative (Amendments to PSAK 1)
	Annual Improvements 2016 – PSAK 3, PSAK 24, PSAK 58, PSAK 60
	Interpretation of the Scope of PSAK 13 Investment Property (ISAK 31)
	Definition and Hierarchy of SAK (ISAK 32)

Forthcoming requirements: Recent changes to SAK that are required to be applied by an entity with annual periods beginning after 1 January 2017. Some of the changes are available for early adoption in annual periods beginning on 1 January 2017.

Effective date	New standards, amendments or interpretations
1 January 2018	Agriculture (PSAK 69)
	Bearer Plants (Amendments to PSAK 16)
	Disclosure Initiative (Amendments to PSAK 2)
	Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PSAK 46)
	Classification and Measurement of Share-based Payment Transactions (Amendments to PSAK 53)
	Transfers of Investment Property (Amendments to PSAK 13)
	Annual Improvements 2017 – PSAK 15, PSAK 67
1 January 2019	Foreign Currency Transactions and Advance Considerations (ISAK 33)
1 January 2020	Financial Instruments (PSAK 71)
	Revenue from Contracts with Customer (PSAK 72)
	Leases (PSAK 73)
	Applying PSAK 71 Financial Instruments with PSAK 62 Insurance Contracts (Amendments to PSAK 62)
	Prepayment Features with Negative Compensation (Amendments to PSAK 71)
	Long-term Interests in Associates and Joint Ventures (Amendments to PSAK 15)

Amendments to PSAK 1 – *Disclosure Initiative*

The amendments to PSAK 1 requires an entity to disaggregate line items if it provides helpful information to users, and to aggregate line items that are immaterial. It also specifies criteria for presenting subtotals in the statement of financial position and in the statement of profit or loss and other comprehensive income (OCI), including additional reconciliation requirements. The presentation of items of OCI arising from equity-accounted associates and joint ventures shall follow the approach of splitting items that may -- and those that will never be – reclassified to profit or loss. The amendments also reiterate the concept of materiality, so that disclosures that are immaterial do not have to be presented and the order of notes are not prescribed. The amendments are effective for annual periods beginning on or after 1 January 2017. Early adoption is permitted.

Annual Improvements 2016

- PSAK 3 — *Interim Financial Statements:* Clarifies that certain disclosures that are not included in the notes to interim financial statements may be disclosed elsewhere in the interim financial report by way of cross referencing, provided that such information is made available to users on the same terms and at the same time.
- PSAK 24 — *Employee Benefits:* Clarifies that the market for high-quality corporate bonds from which the discount rate is determined should be assessed at the currency denomination level instead of the country level.
- PSAK 58 — *Non-Current Assets Held for Sale and Discontinued Operations:* Clarifies that changes in method of disposal (i.e. from held-for-distribution to owners into held-for-sale, or vice versa) are considered as continuation of the original plan of disposal, and the held-for-distribution or held-for-sale accounting shall continue to apply.
- PSAK 60 — *Financial Instruments: Disclosures:* Clarifies that a servicing arrangement is in the scope of disclosure requirements of PSAK 60 if the terms of the arrangement constitute a continuing involvement by a servicer. It also clarifies that PSAK 60 does not specifically prescribe offsetting disclosures in the condensed interim financial statements, unless if such disclosures are required by PSAK 3.

The Annual Improvements 2016 are effective for annual periods beginning on or after 1 January 2017.

ISAK 31 *Interpretation of the Scope of PSAK 13 — Investment Property*

ISAK 31 clarifies that investment property as defined in PSAK 13 refers to structures that have physical characteristics that are usually associated with a building. PSAK 13 only applies to assets that meet the definition of property. This interpretation is effective for annual periods beginning on or after 1 January 2017. Early adoption is permitted.

ISAK 32 — *Definition and Hierarchy of SAK*

ISAK 32 clarifies the hierarchy and definition of SAK (as currently defined in PSAK 1 and PSAK 25), particularly in cases in which capital market authorities issue accounting pronouncements that are inconsistent with existing requirements under SAK. This interpretation is effective for annual periods beginning on or after 1 January 2017.

PSAK 69 — *Agriculture and Amendments to PSAK 16 — Agriculture: Bearer Plants*

PSAK 69 sets out the accounting treatment for biological assets, except for bearer plants, during the period of biological transformation and for the initial measurement of agricultural produce at the point of harvest. Amendments to PSAK 16, published concurrently with PSAK 69, introduces a definition of a bearer plant and amends the scope of PSAK 16 to include bearer plants related to agricultural activity. The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Amendments to PSAK 2 — *Disclosure Initiative*

The amendments to PSAK 2 require entities to provide information to enable users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. These amendments apply for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Amendments to PSAK 46 — *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments to PSAK 46 clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the reporting date, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Amendments to PSAK 53 — *Classification and Measurement of Share-based Payment Transactions*

The amendments to PSAK 53 clarify the measurement of cash-settled share-based payments: classification of share-based payments settled net of tax withholdings, and the accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Amendments to PSAK 13 — *Transfers of Investment Property*

The amendments clarify that the transfer to and from investment property only occurs when there is an actual change in use — i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not lead to a transfer of investment property. These amendments are effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Annual Improvements 2017

- PSAK 15 — *Investments in Associates and Joint Ventures:* Clarifies that policy election to measure investment in associate or joint venture at fair value through profit or loss can be made on an investment-by-investment basis. Similarly, a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries, and such policy election can be made separately for each investment entity associate or joint venture.
- PSAK 67 — *Disclosures of Interest in Other Entities:* Clarifies that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution, except for certain disclosures that have been specifically exempted in PSAK 67 paragraph PP17.

The Annual Improvements 2017 are effective for annual periods beginning on or after 1 January 2018.

ISAK 33 — *Foreign Currency Transactions and Advance Considerations*

ISAK 33, which interprets the treatment for translation of foreign currency transactions under PSAK 10, clarifies that the transaction dates to be used in determining the exchange rate for translating foreign currency transactions involving advance payments or receipts are the dates on which the entity initially recognizes the prepayment or deferred income arising from the advance considerations. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. This interpretation is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

PSAK 71 — *Financial Instruments*

PSAK 71 replaces PSAK 55 — *Financial Instruments: Recognition and Measurement*, and includes the accounting requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The new model for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The expected-loss impairment model requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timely basis. It also requires disclosures to assist users in understanding the amount of expected credit losses, the basis for their measurement and the reasons for changes in expected credit losses over time. PSAK 71 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. The new hedge-accounting model aligns the accounting treatment with risk management activities and includes additional disclosures of information about risk management and the effect of hedge accounting on the financial statements.

The standard is effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted.

PSAK 72 — *Revenue from Contracts with Customers*

PSAK 72 introduces a single revenue recognition model for contracts with customers. It replaces existing guidance under SAK that is dispersed in various standards/interpretations (e.g. PSAK 23 — *Revenue,* PSAK 34 — *Construction Contracts,* PSAK 44 — *Accounting for Real Estate Development Activities,* ISAK 10 — *Customer Loyalty Programmes,* ISAK 27 — *Transfer of Assets from Customers*, and the issued-but-deferred ISAK 21 — *Agreements for the Construction of Real Estate).* The core principle of PSAK 72 is for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entities expect to be entitled in exchange for those goods or services. The model includes a contract-based five-step analysis of transactions to determine when and how much revenue is recognized and is focused on transfer of control. PSAK 72 also includes enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

The standard is effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted.

PSAK 73 — *Leases*

PSAK 73 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exceptions for short-term leases and leases of low-value items. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance or operating leases. PSAK 73 replaces PSAK 30 — *Leases*, ISAK 8 — *Determining Whether an Arrangement Contains a Lease*, ISAK 23 — *Operating Leases – Incentives*, ISAK 24 — *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and ISAK 25 — *Land Rights*. It includes more disclosures for both lessees and lessors.

The standard is effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted for entities that apply PSAK 72 on or before the date of initial application of PSAK 73.

Amendments to PSAK 62 — *Applying PSAK 71 Financial Instruments with PSAK 62 Insurance Contracts*

The amendments allow insurance entities to apply either a deferral approach or an overlay approach, which is a temporary exemption from PSAK 71 — *Financial Instruments*. Under the deferral approach, rather than having to implement PSAK 71 in 2020, qualifying entities are permitted to continue to apply PSAK 55. The overlay approach provides an optional approach to presentation, in order to alleviate temporary accounting mismatches and volatility. Under this approach, for designated financial assets, an entity is permitted to reclassify between profit or loss and OCI the difference between the amounts recognized in profit or loss under PSAK 71 and those that would have been reported under PSAK 55. The amendments are applicable for all entities that issue insurance and reinsurance contracts and to all entities that hold reinsurance contracts, and are effective for annual periods beginning on or after 1 January 2020.

Amendments to PSAK 71 — *Prepayment Features with Negative Compensation*

The amendments allow entities to measure particular prepayable financial assets with so-called negative compensation at amortized cost or at fair value through OCI if a specified condition is met — instead of at fair value through profit or loss. These amendments address concerns over classification and measurement of debt instruments in circumstances in which the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed (i.e. as if having "negative compensation"). The amendments are effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted.

Amendments to PSAK 15 — *Long-term Interests in Associates and Joint Ventures*

The amendments clarify the scope exclusion in PSAK 71 for interests in associates and joint ventures. The amendments clarify that the exclusion in PSAK 71 applies only to interests that are accounted for using the equity method. Thus, entities shall apply PSAK 71 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures. The amendments are effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted.

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