

Accounting News Flash

What's in the Horizon?

ED of PSAK 338 (Revised 2025): Business Combinations of Entities Under Common Control – *A pragmatic approach of resolving existing application challenges*

The recently issued Exposure Draft (ED) of PSAK 338 (Revised 2025) sets out proposals to clarify the accounting for business combination under common control (BCUCC). The ED addresses a number of application issues and diversity in practice identified from the post-implementation review (PIR) of PSAK 338, whilst retaining existing requirements to measure BCUCC at book value under the pooling of interest method.

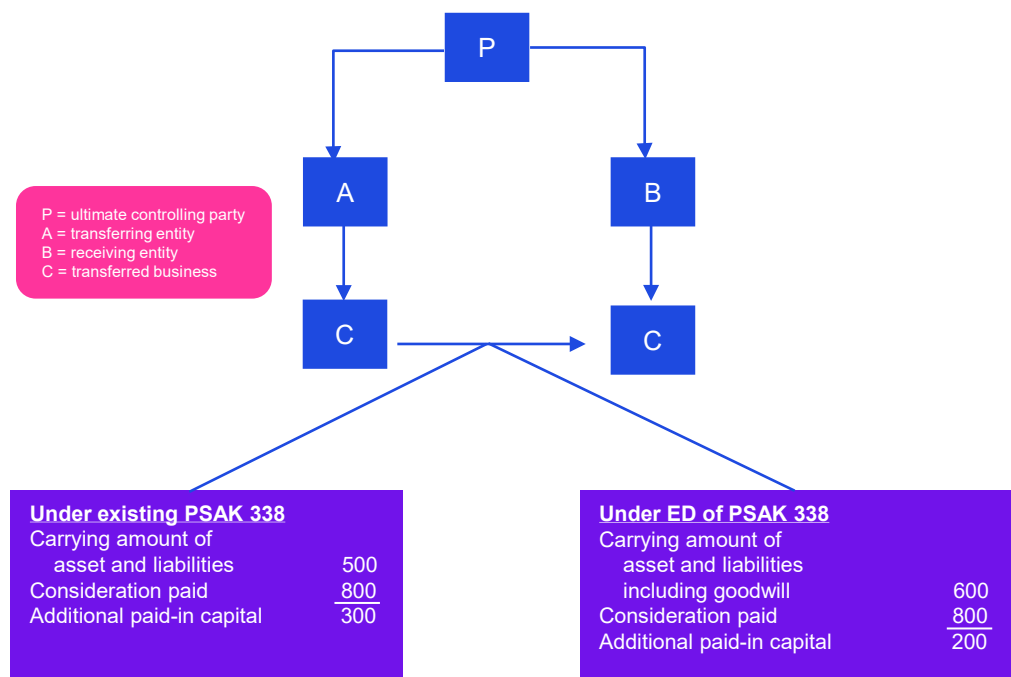
This publication summarizes key aspects of the proposal. Comprehensive reading of the ED is encouraged. The ED is open for comments up to 15 October 2025.

The use of controlling party's book value

Despite the scope of PSAK 338 remains unchanged (i.e. both the receiving and transferring entities shall apply a mirroring accounting treatment in measuring the transferred business at book value), the ED requires the receiving entity to use the **carrying amounts on the transferring entity's** financial statements—unlike existing requirements that are based on **the amounts in the transferred entity's** financial statements. In other words, the receiving entity will have to measure the assets and liabilities of the transferred business using the controlling party's book values.

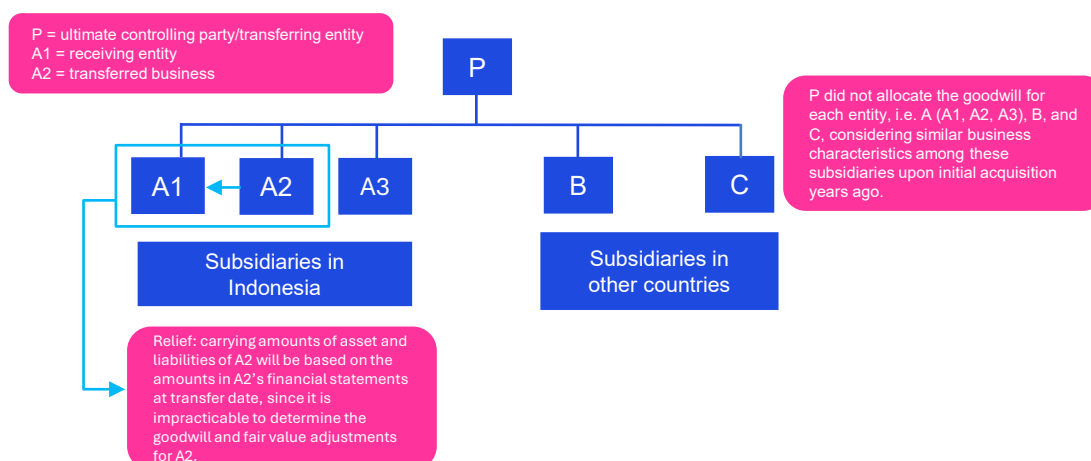
We understand that this proposal is in response to application challenges in cases where the transferred business was previously acquired from a third party (applying PSAK 103)— i.e. goodwill and fair value adjustments attributed to that business were recognized in the financial statements of the controlling party—and for which subsequent to the BCUCC, that business is eventually sold to another third party. Applying existing requirements in PSAK 338—based on book values in transferred entity's financial statements—may lead to goodwill and fair value adjustments being left in the controlling party's financial statements, even after that business is no longer part of the group following its disposition to third party.





However, the ED also includes an “impracticability relief”—based on existing notion of “impracticable” in PSAK 208—such that in certain circumstances the receiving entity may instead use the book values from the transferred entity’s financial statements. The ED elaborates circumstances whereby it might be impracticable to use the transferring entity’s book values. For example, in cases where:

- the financial information (of goodwill and fair value adjustments) is not available, because the deal of the initial acquisition was made at a global/regional level encompassing multiple countries, without allocation or push down accounting at a country level; or
- determining the goodwill and fair value adjustments in current period for past years’ initial acquisition: i) involves the use of hindsight; ii) is subject to management intention in the past; or iii) involves the use of significant unobservable inputs.



KPMG observation

Whilst the proposal a) has addressed application challenges emanating from current practice of using the transferred entity book values, and b) includes examples illustrating situations where the use of “impracticability relief” might (or might not) be appropriate, in some cases it might not be easy to draw the line whether it is indeed impracticable to determine the carrying amounts based on the transferring entity book values. This might potentially lead to diversity in practice, because it might involve significant judgment in concluding whether it is impracticable to determine the amounts after making every reasonable effort to do so. Nonetheless, because the ED borrows the notion from PSAK 208, it is generally understood that “impracticability” threshold in PSAK 208 is a very high hurdle.

Relief from presenting pre-combination information

The ED proposes an “impracticability relief”—based on existing notion of “impracticable” in PSAK 208—from the requirement of presenting pre-combination information. This in effect will relieve transferring entity from restating comparative information.

The ED makes references to existing requirements in paragraphs 05 and 50-53 of PSAK 208 in determining whether it is “impracticable” to present pre-combination information, and include illustrative examples of situations whereby doing so might (or might not) be appropriate. For example, it might be impracticable in situation where a) the transferred business is a unit within a reporting entity, b) the unit is not identified as an operating segment under PSAK 108, and c) discrete financial information of that unit is not available, such that an attempt to collate pre-combination information for that unit might involve significant estimation uncertainty as a result of using of hindsight, unobservable inputs, or estimates subject to management intention in the past.

KPMG observation

The proposal responds to application challenges where the transferred entity is a business unit that does not maintain discrete financial information in the past. Whilst attempting to balance the value-relevance of past information (e.g. to predict future trends) and the reliability of pre-combination information presented (e.g. because it arguably involves significant estimation uncertainties and hindsight), given significant judgments involved, it remains to be seen whether the relief will promote consistent application of the standard.

Scope exclusion – investment entity

The ED proposed to exclude an investment entity (as defined in PSAK 110) from the scope of PSAK 338, such that BCUCC carried out by an investment entity (either as receiving entity or transferring entity) shall not be accounted for under PSAK 338.

KPMG observation

The proposal to exclude investment entity from the scope of PSAK eliminates perceived conflict between measurement requirements in PSAK 338 and PSAK 110.

Disclosures

The ED proposed disclosure requirement for entity applying the “impracticability relief”. This includes: a) the fact that it applies “impracticability relief”; b) the reason for applying such relief; and c) for relief from presenting pre-combination information, the adjustments that would have been applied in such information is restated.

In addition, the ED proposed to allow an entity to disclose in aggregate information of immaterial BCUCCs.

KPMG observation

The proposed disclosure requirements are consistent with similar disclosure in other standards, and are also aligned with materiality concept under PSAK 201 that is also applicable for disclosures.

Effective date and transition

The ED is proposed to be applied prospectively, from annual periods beginning on or after 1 January 2026, and early adoption is permitted.

KPMG observation

Whilst the comment period is relatively short and the standard-setter appears to aim to finalize the ED soon, it is considered reasonable given a rather narrow-scope nature of the proposed revision. Entities currently facing application challenges addressed by this ED may benefit from early adoption, provided that the ED is eventually finalized in its current form.

Other amendments

The ED also includes the following proposals:

- Definitions for transferred business, receiving entity and transferring entity are added. Both the receiving entity and transferring entity is not only confined to an entity directly receiving or transferring the transferred business, but also includes the parent of that entity.
- Reiterate that the difference between consideration received/paid and the carrying amounts of the transferred business is presented **as part of** additional paid-in capital line item in equity.
- Consequential amendments to PSAK 105: to exclude disposal group that is part of a BCUCC from measurement requirements of PSAK 105.

KPMG observation

These other amendments are consequential in nature and are logical consequences of the main proposals of the ED.

References:

PSAK 103: *Business Combinations*

PSAK 105: *Non-current Assets Held for Sale and Discontinued Operations*

PSAK 108: *Operating Segments*

PSAK 110: *Consolidated Financial Statements*

PSAK 201: *Presentation of Financial Statements*

PSAK 208: *Accounting Policies, Changes in Accounting Estimates and Errors*

PSAK 338: *Business Combinations of Entities Under Common Control*

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