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Accounting Outlook

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IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
PSAK	Pernyataan Standar Akuntansi Keuangan
ISAK	Interpretasi Standar Akuntansi Keuangan

Contents

Interpretation of Financial Accounting Standards No 30 provides clarity

For every levy imposed by a government, businesses need to know when to recognize a liability and in which period should the corresponding expense be recorded. ISAK 30: *"Levies"* provides guidance on the accounting for levies.

What does the interpretation cover?

ISAK 30 addresses the accounting for an obligation to pay a levy within the scope of PSAK 57: *"Provisions, Contingent Liabilities and Contingent Assets"***.** It also addresses the accounting for an obligation to pay a levy whose timing and amount is certain. ISAK 30, however, does not address the accounting for the costs that arise from recognizing such an obligation to pay a levy. Entities should apply other PSAKs and/or ISAKs to determine whether the recognition of a liability for such an obligation to pay a levy gives rise to an asset or an expense.

The term 'levy' is defined

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

a. those outflows of resources that are within the scope of other PSAKs and/or ISAKs (such as income taxes that are within the scope of PSAK 46: *"Income Taxes"*); and
b. fines or other penalties that are imposed for breaches of legislation.

The key word is 'imposed', which implies a unilateral assessment, and thus levies do not arise from executory contracts or other contractual arrangements. 'Government' refers to governments, and government agencies and similar bodies, whether local or national or international (which is the same definition as in PSAK 61: *"Accounting for Government Grants and Disclosure of Government Assistance"* and PSAK 7: *"Related Party Disclosures"*).

Recognition principles

The interpretation confirms that an entity recognizes a liability for an obligation to pay a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. For example, if an entity is liable to pay a levy if it generates revenues in a specific market on 1 January 2017, then it does not recognize a liability on 31 December 2016 – even if it is economically compelled to operate in 2017 and it prepares financial statements on a going concern basis.

The timing of the liability recognition will depend on the precise wording of the relevant legislation.

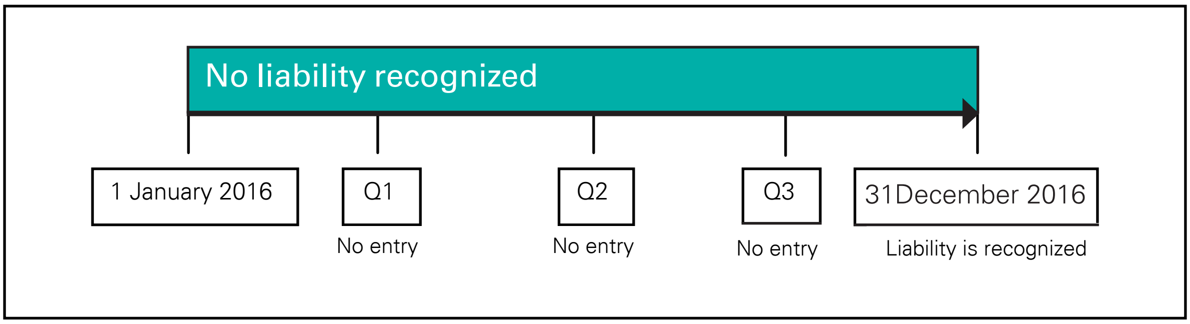
Questions	Addressed by ISAK 30
What is the obligating event that gives rise to the recognition of a liability to pay a levy?	The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.
Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?	An entity does not have a present constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?	The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.
Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?	• If a levy is a single amount payable when a specific event occurs, then the amount is recognized in full when the specified event occurs. No amount is anticipated or deferred. • The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognized as the entity generates that revenue.
What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?	If an obligation to pay a levy is triggered when a minimum threshold is reached, the liability that arises from that obligation shall be recognized when that minimum activity threshold is reached.
Are the principles for recognizing a liability to pay a levy in the annual financial statements and in the interim financial report the same?	The same recognition principles apply in the interim financial statements as in the annual financial statements, even if this results in uneven charges over the course of the year.

Illustrative examples

The following timelines indicate the points at which a liability is recognized for annual and interim reporting periods based on the circumstances described. The circumstances described do not necessarily reflect the actual legislation applicable for similar levies in Indonesia. The examples use an annual reporting period that ends on 31 December and assume the levy is payable on 1 January of the following year.

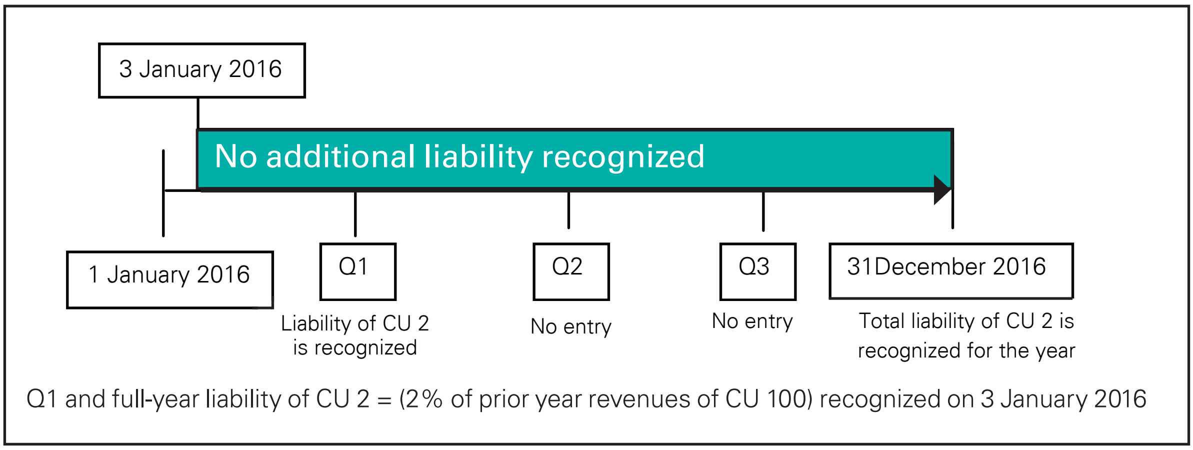
Example 1 - A levy is triggered in full if the entity operates as a bank at a specified date

Entity A is a bank and has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full only if an entity still operates as a bank at the end of the annual reporting period; should the entity cease its operation before the end of the annual reporting period, no levy is imposed on the entity. The amount of the levy is calculated by reference to the amounts in the statement of financial position of the entity at the end of the annual reporting. The end of the annual reporting period of Entity A is 31 December 2016.



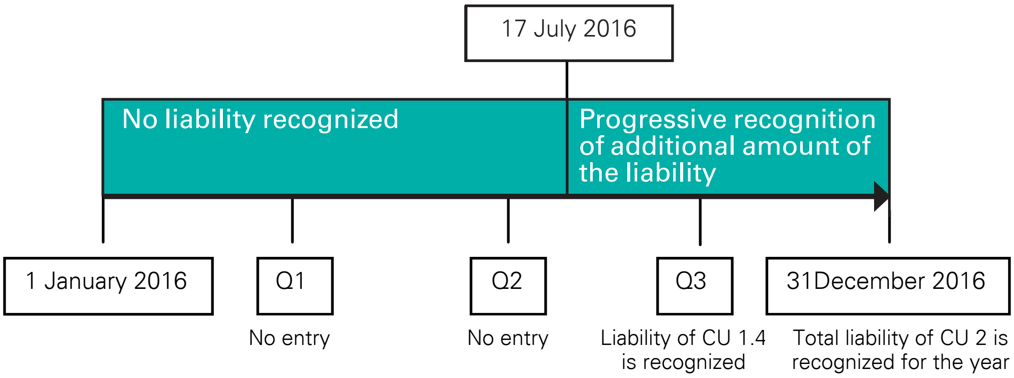
Example 2 – Levy triggered if the entity generates revenue in a specified period

A levy is triggered in full as soon as the entity generates any amount of revenue in an annual period. The amount of the levy is calculated as 2% of total revenues for the preceding annual period. The entity generated revenue of CU ("Currency Unit") 100 in the annual period ended 31 December 2015, and in 2016 starts to generate revenue on 3 January.



Example 3 – Levy triggered if the entity generates revenues above a minimum threshold

A levy is triggered if the entity generates revenues above CU 50 in an annual period. The amount of the levy is determined at a rate of 2% by reference to all revenues generated by the entity in the annual period – i.e. including the first CU 50. In the annual period ending 31 December 2016, the entity reaches revenue of CU 50 on 17 July 2016. The entity generates a further CU 20 of revenue between 17 July 2016 – 30 September 2016, and another CU 30 in the last quarter.



Q3 Liability of CU 1.4 = (2% of CU 50) recognized on 17 July 2016 + (2% of CU 20) recognized during the remainder of Q3 – 2016.
Full year liability of CU 2 = (2% of CU 50) recognized on 17 July 2016 + (2% of CU 20) recognized during the remainder of Q3 – 2016 + (2% of CU 30) recognized during Q4 - 2016.

Application criteria for ISAK 30

ISAK 30 clarifies:

- What subject matters meet the definition of a levy
- When a liability for a levy is to be recognized; and
- Whether the recording of a liability results in a corresponding expense or an asset

Impact on the financial statements

Certain items that historically would be treated as income tax fall within the definition of a levy under this interpretation (e.g. taxes that are imposed on revenue).

Effective date and transition

ISAK 30 is effective for annual periods beginning on or after 1 January 2016 and requires retrospective application.

ISAK 31 – Clarifying the scope of PSAK 13

PSAK 13: *"Investment Property"* narrowly defines its scope to only include land and/or buildings held to earn rentals, capital appreciation, or both. In light of emerging business models involving structures that are held to earn rentals, questions arise as to whether entities may apply PSAK 13 to account for such structures. ISAK 31: *"Interpretation of the Scope of Investment Property"* was issued to clarify the scope of PSAK 13 with respect to the following.

Broadening the scope?

How should we account for a structure that lacks the physical characteristics of a building (e.g. a telecommunication tower, or a billboard) and is used to lease virtual space to tenants to generate rental income? Should the scope of PSAK 13 be narrowly interpreted, so that it applies only to land and/or buildings? How else should the boundaries of PSAK 13 be defined, and should the indicators be based on analysis of the assets' physical characteristics or on the business model and the way the assets are used?

Background

ISAK 31 was issued in response to a divergence in practice in the accounting treatment for certain assets that are not land and/or buildings as defined in PSAK 13, but that are similarly used to earn rentals and/or capital appreciation. The issues originally surfaced in connection with leased space on telecommunication towers where telecommunications operators install their antennae. The tower owner also provides some basic services to the telecommunication operators, such as maintenance services. Similar accounting issues are also applicable for other types of structures, such as fuel storage tanks or advertising billboards, that are neither land nor buildings, *per se*, but are held to generate rentals.

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Some liken such structures to buildings, and may elect to measure their carrying amount using the PSAK 13 fair value model, whereby changes in fair value are recognized in profit or loss. Others argue that such structures are similar to property, plant and equipment ("PP&E"), where an option to measure using the revaluation model is also available under PSAK 16: *"Property, Plant and Equipment"*; in this case, changes in fair value are recognized in other comprehensive income, and the depreciation charges of the PP&E are recognized in profit or loss. Another logical argument against fair value accounting of assets such as telecommunication towers is that the perspective of their value is one of "outside-basis", not "inside-basis", i.e.:

a. towers are generally not bought and sold on an individual basis in the market, but rather through mergers and acquisitions of companies owning the tower portfolios, and

b. tower companies intend to hold the towers until the end of their economic life.

Such diversity of practice detracts the comparability of the entities' financial performance and financial ratios (e.g. the EBITDA and the interest coverage ratio). For that reason, determining the scope of PSAK 13, and whether or not it can be broadened to include those structures, is a key question.

IAS 40, from which PSAK 13 was adopted, does not elucidate as to why the scope of investment property is confined to land and/or buildings, other than an explanation that the characteristics of these properties differ significantly from owner-occupied properties, such that the current value of such properties and the changes therein are relevant to the users of financial statements.

This issue has been escalated to regional and international standard setting forums, and has been discussed by the IFRS Interpretation Committee ("IFRIC"), and was eventually passed on to the IASB. The IFRIC is concerned that such structures may not qualify as buildings because they lack the features usually associated with a building, such as walls, floors and a roof. The IFRIC also is concerned that it will be difficult to reconsider the scope of IAS 40 without considering the impact on similar assets, e.g. fuel storage tanks and advertising billboards (IFRIC Update – July 2013).

In December 2014, IASB decided not to proceed further with discussions on this matter, on the basis that:

a. there appeared to be limited demand for fair value accounting for a structure that lacks the physical characteristics of a building, and

b. the diversity in practice did not appear to be pervasive, i.e. only confined to Indonesia.

Interpretation

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, e.g. walls, floors and a roof. PSAK 13, allows treatment as an investment property only if the asset meets the definition of property as defined in PSAK, i.e. if it is land or a building—or part of a building—or both. PSAK 13 is premised upon this notion and an interpretation of PSAK 13 may not deviate from this concept.

The original intent for the scope of PSAK 13 was to confine it to real property, primarily because of the undue effort that would be required to measure the fair values of other types of non-financial assets. Attempting to broaden that scope will have the unintended consequence of allowing fair value accounting or disclosures for all non-financial assets.

In the absence of an alternative accounting model that would accommodate accounting treatments for structures other than real property, ISAK 31 is intended to bring the discussion back to the definition of property under PSAK 13.

Effective date and transition

ISAK 31 is effective for annual periods beginning on or after 1 January 2017. Early adoption is permitted.

ISAK 31 includes a transition provision that in substance is a prospective catch-up approach based on the analysis as of 1 January 2016. As of that date:

1. If it does not meet the definition of building and was previously accounted for as investment property under the cost model, an entity is required to reclassify the assets to PP&E as of 1 January 2016 and apply the cost model under PSAK 16.

2. If it does not meet the definition of building and was previously accounted for as investment property under fair value model, an entity is required to reclassify the assets to PP&E as of 1 January 2016 and:

    - If subsequently measured under the cost model (PSAK 16), retrospective application is required by adjusting the retained earnings for the cumulative effect of the change as of 1 January 2016*;

    - If subsequently measured under the revaluation model (PSAK 16), retrospective application is required by adjusting the retained earnings and revaluation surplus (part of equity) for the cumulative effect of the change as of 1 January 2016*.

*The financial statements for periods prior to 1 January 2016 need not be restated for the application of this principle.

Accounting for agricultural activity - PSAK 69 and amendments to PSAK 16

PSAK 69: *"Agriculture"* introduces the accounting treatment for certain agricultural activities. PSAK 69 was issued concurrently with the Amendments to *PSAK 16: "Agriculture: Bearer Plants".* Both standards adopt the equivalent standard in IFRS i.e. the amended IAS 41 and IAS 16 (the June 2014 version). The IASB issued the amendments to IAS 41 and IAS 16 in response to concerns by some constituents that the fair value model is not appropriate for measuring bearer plants that are no longer undergoing biological transformation – e.g. palm-oil trees bearing fruit.

Scope and definitions

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. Thereafter, PSAK 14: *"Inventories"* or other applicable standards are applied. PSAK 69 does not deal with the accounting for processing of agricultural produce after harvest. Having been excluded from the scope of PSAK 69, bearer plants are now included in the scope of the amended PSAK 16. Thus the recognition, measurement, presentation and disclosures of bearer plants follow existing requirements of PSAK 16.

Definitions:

Agricultural activity is defined as the management of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.

Biological transformation comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes in a biological asset.

Biological asset is a living animal or plant.

Agricultural produce is the harvested product of biological assets.

Determining whether an asset is a biological asset or inventory sometimes depends on the purpose for which the asset is held. For example, fertilized eggs held for hatching chicks are biological assets, while eggs held for sale are inventory. The following are examples of biological assets, agricultural produce and products that are the result of processing after harvesting:

Biological Assets	Agricultural Produce	Products That Are The Result Of Processing After Harvest
Dairy cattle	Milk	Cheese
Oil palms	Harvested fruit	Palm oil

Bearer plants that are excluded from the scope of PSAK 69 are plants that:

a. are used in the supply of agricultural produce;

b. are expected to bear produce for more than one period; and

c. have a remote likelihood of being sold as agricultural produce.

Bearer plants are considered as no longer undergoing significant biological transformation, and thus are accounted for in the same way as self-constructed items of property, plant and equipment during construction. For example, palm oil trees meet the definition of bearer plant and thus are to be accounted for in accordance with PSAK 16.

Land owned by and used for agricultural activity is subject to the recognition and measurement principles of PSAK 16 and ISAK 25: *"Land Rights"*. Land that is leased out for the purposes of agricultural activity is treated as investment property by the land owner and is accounted for in accordance with PSAK 13.

Recognition and measurement

A biological asset is recognized only when:

a. the entity controls the asset as a result of past events;

b. it embodies probable future economic benefits; and

c. the fair value or cost can be measured reliably.

Biological assets are measured at fair value less costs to sell from initial recognition of biological assets up to the point of harvest. Gains or losses on the initial recognition of fair value of biological assets or changes in fair value less costs to sell of biological assets are recognized in profit or loss in the period in which they arise.

Similarly, agricultural produce at the point of harvest is measured at its fair value less costs to sell at the point of harvest. The produce or harvest from a biological asset is inventory. The harvested produce is transferred to inventory at fair value less costs to sell; it is thereafter accounted for in accordance with PSAK 14. However, if the produce is still growing or still attached to the biological asset, its value forms part of the value of the biological asset.

For practical expedience, PSAK 69 allows measurement at cost if:

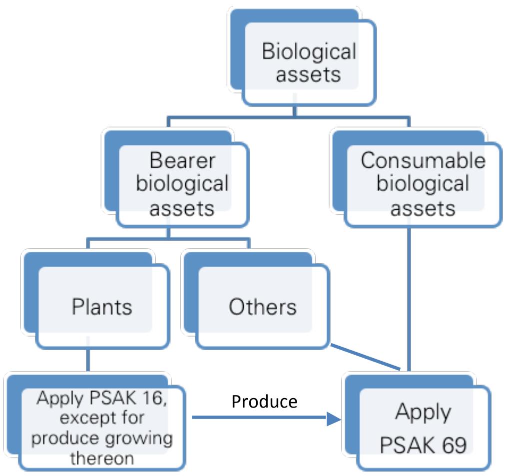
- cost approximates fair value, in situations where little biological transformation has taken place since the initial cost was incurred (for example, for fruit tree seedlings planted immediately before the end of the reporting period); or
- the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation cycle).

PSAK 69 includes a presumption that fair value of a biological asset can be measured reliably. That presumption can be rebutted only on initial recognition in rare cases where market-determined prices or values are not available and alternative estimates of fair value are clearly considered as unreliable. In such cases, the biological asset is measured at its cost less accumulated depreciation and accumulated impairment losses. An impairment test would be required whenever impairment indicators manifest.

In determining fair value, contract prices are not necessarily relevant, because fair value should reflect the latest market prices. At the inception of the contract, the contract price would be the best estimate of the future market price and would therefore be a relevant price to use in a cash flow model. Subsequently, historical contract prices may bear no relevance to the current fair value of the biological asset. Therefore, the fair value of a biological asset or its agricultural produce is not influenced by the existence of a contract unless contract prices represent current market prices.

Costs to sell include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get assets to the market. Such costs are deducted in determining fair value (that is, fair value is the market price less transportation and other costs necessary to get an asset to market).

How it works – the interaction between PSAK 69 and the Amendments to PSAK 16



Example:

- PT ABC owns a palm oil plantation
- The palm oil plants and the produce together have a fair value of 2,000
- The historical cost of the palm oil plants is 700
- The fair value of the produce on palm oil plants is 100

In this illustrative example, palm oil plants are considered as bearer plants on the basis that these assets are mature, and are the means for production of agricultural produce over several reporting periods until their useful lives expire. By reference to the standards, PT ABC accounts for the palm oil plants and the produce growing on them separately. PT ABC may elect to measure the palm oil plants at their cost of 700, and the produce is measured at its fair value of 100.

Disclosures

PSAK 69 requires detailed disclosures that include a reconciliation of changes in the carrying amount of the biological assets, and quantitative disclosures of the volumes produced or sold in a period, either in the financial statements, or elsewhere in the information published along with the financial statements.

When biological assets are measured at cost because fair value cannot be estimated reliably, detailed additional disclosures are required, including an explanation as to why the fair value cannot be measured reliably.

The disclosure requirements of PSAK 68: *"Fair Value Measurement"* apply for each class of biological assets measured at fair value less costs to sell.

Challenges ahead

Measuring the fair value of produce on bearer plants will present some challenges. For example, it would be difficult to determine the fair value of biological assets or agricultural produce at the point of harvest for entities that hold large plantation areas at different locations that are affected by varying levels of plant maturity, yield profile, locality, fertility of soil, etc., as these inputs come into consideration in measuring the fair value.

Effective date and transition

PSAK 69 and Amendments to PSAK 16 are effective for annual periods beginning on or after 1 January 2018. These standards are applied retrospectively. Early adoption is permitted. Upon applying the Amendments to PSAK 16, the bearer plants' fair value at the beginning of the earliest period presented is considered their deemed cost at that date.

Standards and interpretations effective in 2016 and beyond

The tables below provide a snapshot of new standards issued up to 31 December 2015. A majority of the standards/interpretations were adopted from IFRS with minimal modifications (primarily relating to the effective date of the standards).

Standards/Interpretations		Source
No	**Description**	
Effective 1 January 2016		
ISAK 30	Levies	IFRIC 21
Sub topic: Consolidation suites		
Amendments to PSAK 4	Equity Method in Separate Financial Statements	Amendments to IAS 27
Amendments to PSAK 15	Investment Entities - Applying the Consolidation Exception	Amendments to IAS 28
Amendments to PSAK 65	Investment Entities - Applying the Consolidation Exception	Amendments to IFRS 10
Amendments to PSAK 66	Accounting for Acquisition of Interests in Joint Operations	Amendments to IFRS 11
Amendments to PSAK 67	Investment Entities - Applying the Consolidation Exception	Amendments to IFRS 12

Standards/Interpretations		Source
No	**Description**	
Effective 1 January 2016 (Continued)		
Subtopic: Acceptable methods of depreciation/amortization		
Amendments to PSAK 16	Clarification of Acceptable Methods of Depreciation and Amortization	Amendments to IAS 16
Amendments to PSAK 19	Clarification of Acceptable Methods of Depreciation and Amortization	Amendments to IAS 38
Annual Improvements 2015: Adopting IFRS Annual Improvements ("AI") Cycle 2010 - 2012		
PSAK 5	Operating Segments	IFRS 8 – AI Cycle 2010 - 2012
PSAK 7	Related Parties	IAS 24 – AI Cycle 2010 - 2012
PSAK 16	Property, Plant and Equipment	IAS 16 – AI Cycle 2010 - 2012
PSAK 19	Intangible Assets	IAS 38 – AI Cycle 2010 - 2012
PSAK 22	Business Combination	IFRS 3 – AI Cycle 2010 - 2012
PSAK 53	Share-based Payments	IFRS 2 – AI Cycle 2010 - 2012
Annual Improvements 2015: Adopting IFRS Annual Improvements ("AI") Cycle 2011 – 2013		
PSAK 13	Investment Property	IAS 40 – AI Cycle 2011 - 2013
PSAK 22	Business Combination	IFRS 3 – AI Cycle 2011 - 2013
PSAK 68	Fair Value Measurement	IFRS 13 – AI Cycle 2011 - 2013
Annual Improvements 2015: Editorial correction		
PSAK 25	Accounting Policies, Changes in Accounting Estimates and Errors	N/A
Effective 1 January 2017		
ISAK 31	Interpretation of the Scope of Investment Property (PSAK 13)	N/A - Locally developed interpretation. No IFRIC/SIC equivalent.
Subtopic: Disclosure Initiatives		
Amendments to PSAK 1	Disclosure Initiatives	Amendments to IAS 1
Effective 1 January 2018		
PSAK 69	Agriculture	IAS 41
Subtopic: Agriculture		
Amendments to PSAK 16	Agriculture - Bearer Plants	Amendments to IAS 16

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