

## V. Issues and Recommendations

**T**his chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The study concludes that Indonesian private sector accounting and auditing practices and standards are largely consistent with international best practice. Moreover, Indonesian professional accountancy qualifications compare very favorably with regional and international norms. These conclusions are contrary to popular perception.

234. Nevertheless, Indonesia faces significant issues. First, the weak judicial environment negates many of the incentives and sanctions that support strong and reliable financial reports. Second, in comparison to other countries, Indonesia has relatively few professionally-qualified accountants, particularly outside the main urban centers. Third, the accuracy of financial statements depends largely on the reliability of asset and liability valuations. However, Indonesia's valuation profession is only just beginning to develop in line with regional and international norms.

235. In response, this study recommends continued development of standards and practices, and that support is given to facilitate the development, enactment and implementation of the PA law. It also recommends measures to strengthen the valuation profession.

236. However, this study presents no magic solution for addressing the apparent shortage of accountants, particularly in non-urban areas. While some supply-side recommendations are made regarding education and training, the real issue appears to be demand. Nevertheless, anecdotal evidence suggests that two factors are creating stronger demand for accountants. First, increased awareness of corporate governance is driving demand for accountancy services, and second, decentralization activities are increasing demand for accountants, particularly outside the main urban centers.

### 1. Support PA Law Implementation

237. When enacted, the draft PA Law will bring significant changes in accountancy arrangements. These changes should be implemented in a practical, realistic and consistent manner. It is **recommended** that: (i) a project to develop a PA Law implementation strategy and plan be developed; and (ii) implementation of this plan be supported.

## 2. Develop Accountancy Qualifications

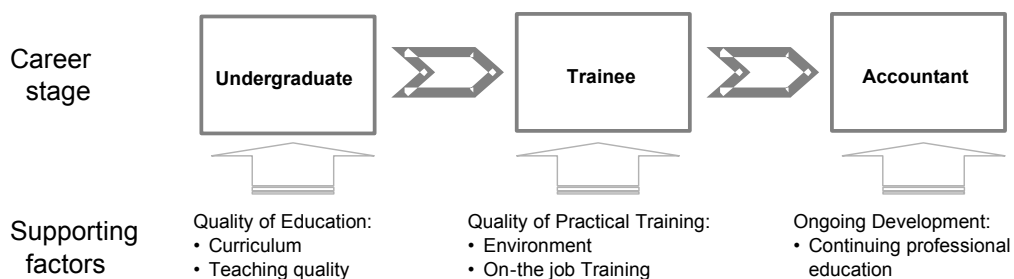
238. The BAP qualification for PAs meets international guidelines. The Accountant Title does not. It is common practice to have a range of accountancy qualifications that meet varying market needs, for instance management accountants and accounting technicians. The establishment of additional accountancy qualifications would provide a transitional route for aspiring public accountants and professional representation for other accountants. It would also improve their societal status, and improve their knowledge and competence. Furthermore, this initiative would strengthen IAI's status.

239. IAI-KAP is undertaking preliminary work on establishing management accountant qualifications. IAI has long considered introducing an Accountant Technician qualification. It is **recommended** that IAI's efforts to develop and implement qualifications for management accountants and accounting technicians be supported.

## 3. Provide Training to Lecturers and Professors

240. There is no specific advanced training provided for the continuing education of accounting lecturers and professors. In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practices and trends. The quality of undergraduate teachers is a key factor in developing competent accountants (Figure 10 refers).

Figure 10: Developing Competent Accountants



241. In 2002, ADB supported a very successful training regional program for accounting academics in selected DMCs. It is **recommended** that this training program be supported for Indonesian accounting academics.

## 4. Decentralize the USAP

242. The USAP is currently offered twice a year in Jakarta and Surabaya. Few aspiring accountants from outside these centers have access to the

USAP. It is recommended that the USAP be offered more widely throughout Indonesia.

## **5. Strengthen CPE Training and Monitoring**

243. As with the USAP, CPE courses are highly centralized. It is recommended that support be provided to strengthen CPE training courses and to deliver these throughout Indonesia.

## **6. Strengthen the Valuation Profession**

244. Reliable valuations are very important for: (i) financial statement reliance; (ii) lending; and (iii) local government property taxes. However, the Indonesian valuation profession is weak. DPAJP considers it essential that professional certification, training and quality assurance be strengthened.

245. It is recommended that support be provided to: (i) review the status of the valuation profession in comparison to international norms and practices; (ii) develop a strategy and plan for strengthening the profession throughout Indonesia, including development of the university curriculum, establishment of specialized qualifications, and training for lecturers and professors; (iii) develop supporting legislation and regulations; (iv) implementation the strategy and plan.

## **7. Support the Application of Valuation Standards**

246. Indonesia recently adopted international valuation standards (SPIs). The next challenge is to train valuers in their application. It is recommended that support be provided to train valuers in the application of the new valuation standards.

## **8. Consider Improvements to PSAKs**

247. The PSAK structure—comprising IAS, U.S. GAAP and sector-specific standards—is maintenance intensive and may not be suited to Indonesian conditions. Consequently, there will be a tendency for PSAKs to be out-of-step with IAS. The structure also limits access to guidance and training materials, potentially undermines investor confidence and imposes unnecessary compliance costs on SMEs (because there is no differential reporting regime).

248. It is suggested that: (i) changes are made to PSAKs to improve their conformity with IAS (see Appendix I2); and (ii) the suggestions to simplify the PSAK structure are considered for adoption (These include fully aligning PSAKs with IAS, reducing regulatory conflicts and intro-

ducing differential reporting for SMEs). The special Chapter Appendix suggests how the PSAK structure might be simplified in a step-by-step manner (see pages 119-132).

## **9. Support Indonesian Involvement in UNCTAD-ISAR**

249. ISAR examines accounting and auditing issues that are of special relevance to developing and transitional economies. In particular, ISAR has formed an *ad hoc* Consultative Group of Experts on Accounting by Small and Medium Sized Enterprises (SME-CG) to recommend an IAS-based financial accounting and reporting framework for SMEs. The preliminary SME-CG proposals were considered by ISAR at its September 2001 meeting.<sup>176</sup> SME-CG will present its revised proposals to ISAR's nineteenth session in late 2002. Indonesia was not represented at ISAR's eighteenth session in September 2001, however the issues being examined and the proposals being developed are directly relevant to Indonesia's situation.<sup>177</sup>

250. It is **suggested** that assistance be provided to support: (i) Indonesian involvement in ISAR; and (ii) dissemination of ISAR materials within Indonesia.

## **10. Further Develop Auditing Training and Monitoring**

251. A recent IAI report identified concerns that audit practitioners and accounting academics were not completely familiar with SPAPs. The report suggested that practitioners and academics be educated on SPAPs and ongoing developments, through continuing education and other initiatives (see page 109). Workshop participants and interviewees agreed that, although continuing education was available, it could be improved and be made more attractive through enhanced monitoring of CPE. It is **recommended** that assistance be provided to further develop training programs to practitioners and academics on SPAPs and to monitor attendance.

## **11. Gradually Adopt International Auditing Pronouncements**

252. Indonesian auditing standards comprise a mixture of U.S. and international pronouncements. Efficiency gains could be made by fully

---

<sup>176</sup> UNCTAD ISAR. 2001 July 16. *Accounting by Small and Medium-Sized Enterprises: Report by the Ad Hoc Consultative Group of Experts on Accounting by Small and Medium-Sized Enterprises*. Report No. TD/B/COM.2/ISAR/12.

<sup>177</sup> Representatives of seven ADB DMCs attended: Bangladesh, People's Republic of China, India, Philippines, Sri Lanka, Thailand and Tonga.

adopting international auditing pronouncements. However, in comparison to other potential actions, this should be accorded lower priority. It is **recommended** that assistance be provided to support Indonesia's full adoption of IAASB pronouncements over time, as resources and capacity allow.

## **Chapter Appendix: Suggestions for Improving PSAKs**

### **1. Introduction**

253. Beginning in the early 1990s, significant efforts have raised PSAKs to international levels. This study concludes that, although these efforts were successful, environmental changes have overtaken them. First, there is now overwhelming support for one global accounting standard, although consensus has yet to be reached on the basis for these standards (see Box 8 and Figure II).

254. This chapter appendix suggests how the PSAK structure might be improved to: (i) raise the credibility of Indonesian financial disclosure; (ii) reduce business compliance costs, particularly for SMEs; (iii) reduce standard-setting resource requirements; and (iv) enhance access to guidance and training materials. An implementation approach is also suggested.

## Box 8. Will U.S. GAAP Converge with IAS?

On 30 July 2002, the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act was signed into U.S. law. Among other things (see p. 44), it requires the SEC to examine the adoption of principles-based accounting. SEC must report its findings by July 2003 on: (i) the current use of principles-based accounting in the U.S.; (ii) the time required to adopt principles-based accounting; (iii) the feasibility of and proposed methods for implementing a principles-based system; and (iv) an economic analysis of the implementation of principles-based accounting.

The new law also permits SEC to look to a private-sector accounting standard-setter, such as FASB, provided that the standard-setter: "considers, in adopting accounting principles, ... the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors."<sup>178</sup>

Moreover, in a November 2002 speech, the FASB Chair stated that "... the growth of cross-border investing and capital flows and a growing endorsement of international standards in many parts of the world mean that, on the one hand, the U.S. cannot go it alone in terms of development of accounting standards and, on the other hand, the development of international standards across the major capital markets of the world requires that the U.S. be a very active participant in the process, for there can be no truly international accounting standards if the largest capital market in the world, the U.S., is not part of their development. Accordingly, we have been dedicating significant resources at various levels to this effort... Since there are literally hundreds of differences between U.S. GAAP and international standards, realistically, this effort will still be ongoing, well, beyond 2005 when Europe adopts international standards en masse. But we need to set this process in motion now if we are to get to the Promised Land.

... For the FASB, this is a major area of activity that is logistically challenging and that necessitates increases in both our people and monetary resources, but we need to do it. I think the trick is to do it in a way that does not significantly delay or dilute our efforts to improve U.S. standards and that, by working with our international colleagues, results in better standards that can be applied both here and across the major capital markets of the world."<sup>179</sup>

255. Second, a country may have high-quality national accounting standards, but slight differences from international benchmarks will be identified; investors dislike deviations.

256. The PSAK structure blends IAS, U.S. GAAP, sector-specific standards and Indonesia-specific standards within an IAS framework (see pages 103-108). It was conceptually sound when developed in the

<sup>178</sup> Source: Deloitte Touche Tohmatsu. 2002 July 30. [www.iasplus.com](http://www.iasplus.com)

<sup>179</sup> Herz, Robert H. 2002. Remarks on Current Financial Reporting Issues to the Financial Executives International (FEI) Conference. New York. 4 November. Speech.

early 1990s. Moreover, the PSAK structure merges the beneficial aspects of principle-based IASs, rules-based U.S. GAAP and sectoral guidance. Nevertheless, it differs from the two accepted international benchmarks: IAS and U.S. GAAP. Furthermore, maintaining the PSAK structure requires constant monitoring of both systems. Without very significant resources being devoted to standard setting on an ongoing basis, PSAKs will tend to differ from their international parents.

## **2. Suggested Improvements**

### **Introduction**

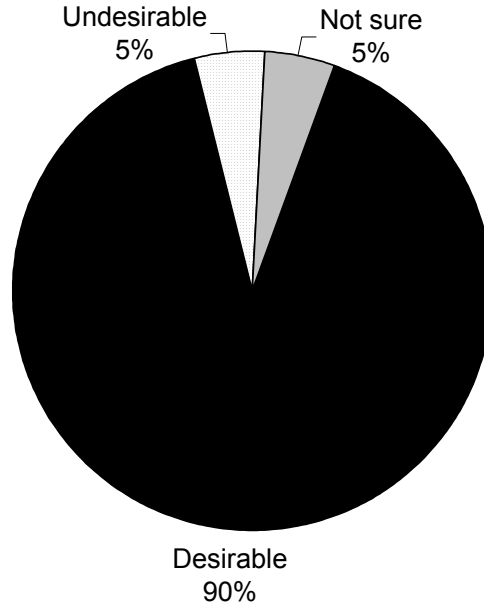
257. This study concludes that PSAKs generally meet international standards, but identifies shortcomings:

- Indirect IAS adoption allows negative perceptions to prevail. It also impedes access to high-quality training and guidance materials.
- Certain regulatory requirements conflict with IAS (e.g., lease classifications).
- Indonesian PSAKs are based upon IAS and U.S. GAAP, standards that have been developed on a one-size-fits-all basis. For instance, IAS 19 (*Employee Benefits*) requires actuarial valuations of certain employee benefits. These valuations must be conducted whether the reporting organization is a corporation that is listed on the Frankfurt Stock Exchange or a small, unlisted manufacturing organization in Karachi. Many countries have implemented differential reporting regimes to reduce SME compliance costs and implementation difficulties.

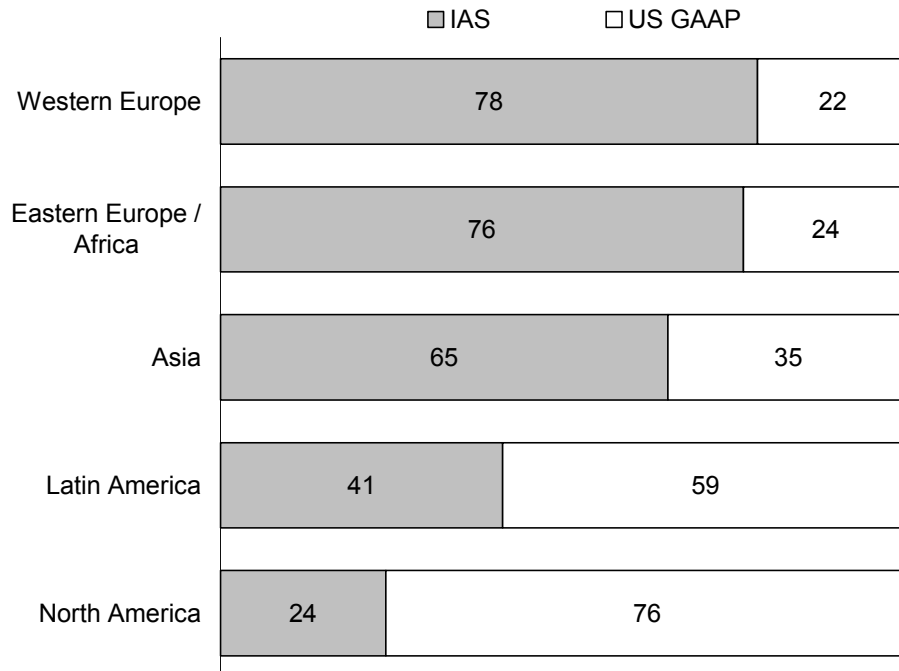
258. This study suggests the following changes to address these issues: (i) directly adopt IAS; (ii) remove regulatory conflicts; (iii) introduce differential reporting; (iv) relegate non-IAS PSAKs to guidance status; and (v) endorse standards and standard-setting arrangements.

Figure 11. McKinsey Institutional Investor Survey (July 2002)

To what extent is a single global accounting standard desirable?



If an existing standard were chosen as a global one, which one would you prefer?



Source: McKinsey & Company. 2002 July. *Global Investor Opinion Survey: Key Findings*.

## Directly Adopt IAS

259. The basis for Indonesian financial reporting has evolved substantially in the past decade. In particular, there has been a move away from an early version of U.S. GAAP to IAS—PSAKs are now largely IAS-compliant. However, IAS will continue to evolve, particularly in the near future, as IASB undertakes its *Improvements Project*.<sup>180</sup> If PSAKs are to remain consistent with IASs, this will require substantial efforts on the part of the Financial Accounting Standards Board (DSAK).

260. Meanwhile, there is an increasing international trend for direct IAS adoption. Countries who have taken, or who are taking, this path include Australia,<sup>181</sup> Pakistan, Philippines and the European Union member countries. The direct adoption of IASs would: (i) reduce standard setting costs and efforts; (ii) improve the credibility of Indonesian financial reporting; and (iii) enhance access to training, guidance and checklist materials. For instance, Deloitte Touche Tohmatsu publishes an excellent set of IAS-compliant model financial statements, which are cross-referenced to IAS. A disclosure checklist is also available.<sup>182</sup>

261. Where an IAS does not address a certain country-specific issue, there is a case for promulgating a national accounting standard. For instance, Papua New Guinea uses IAS directly but has released a national accounting standard on plantation accounting. Many direct IAS adopters have a national accounting standard on Value Added Tax. Likewise, there is a case for an Indonesian standard on Shariah banking.

262. Directly adopting IAS involves two challenges. First, IAS offers a range of accounting policy choices to accommodate diverse international views (for instance some countries adamantly support asset revaluation;

---

<sup>180</sup> The main objectives of IASB's *Improvements Project* are to reduce or eliminate alternatives, redundancies and conflicts within existing IASs and to make other improvements to them. This includes dealing with some convergence issues and incorporating related consensus statements issued by the Standards Interpretation Committee (SIC) into the relevant IASs, where appropriate. The timetable is to finalize the standards by the end of 2002, spurred in large part by European commitment to comply with IASB standards from 2005.

<sup>181</sup> Subject to the Australian Government's support at the appropriate time for any necessary amendments of the Corporations Act, this will mean that, from 1 January 2005, IASB standards will be applicable to reporting entities under the Act. After that date, audit reports will refer to companies' compliance with IASB standards. Australian Financial Reporting Council (FRC). 2002 July 3. Adoption of International Accounting Standards by 2005. *Bulletin of the Financial Reporting Council*. 2002/4.

<sup>182</sup> See [www.iasplus.com](http://www.iasplus.com).

others are fervently opposed). Although available choices have been significantly reduced since 1996, IASs are still criticized for being too flexible. For instance, IAS 2 (*Inventories*) allows several valuation methods. Many countries who have adopted, or who are adopting, IAS limit choices to improve the consistency and comparability of financial reporting. In many cases, accounting choices are limited to those allowed for taxation purposes (e.g., LIFO inventory valuations are commonly disallowed).

263. Second, IASB promulgations are in English. To avoid conflicts arising from translation differences, officially sanctioned translations would be necessary. DSAK is best placed in this regard. Fortunately, significant lead times are usually given between IASB pronouncements and their effective implementation date.

### Remove Regulatory Conflicts

264. Certain Indonesian legislation prescribes accounting treatments that conflict with IAS. First, tax-free revaluations of property, plant and equipment are not allowed unless expressly approved by a special Finance Minister Decree (e.g., in 1971, 1979 and 1986). For accounting purposes, companies may record revaluations without being taxed on the revalued amounts since the profit is deemed unrealized. However, depreciation charges for tax purposes must be based on the original cost, or on an earlier authorized revaluation. Revaluations not authorized by government decree must be noted in the auditor's report.<sup>183</sup> Among other things, Indonesian revaluation practices differ from the IAS 16 (*Property, Plant and Equipment*) requirement that asset valuations be kept up to date, once the practice has been adopted.<sup>184</sup> Second, Indonesian Corporate Regulations specify the accounting treatments for certain equity and reserve items. Third, classification criteria for finance and operating leases, per MOF regulations, differ from that the IAS 17 (*Leases*) criteria.<sup>185</sup>

---

<sup>183</sup> Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. pp. 284.

<sup>184</sup> Source: Nobes, Christopher W. (Ed.). 2001 October. *GAAP 2001: A Survey of National Accounting Rules Benchmarked against International Accounting Standards*: Jointly published by Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers.

<sup>185</sup> IAS 17 classifies a lease as a finance lease if it meets the following criteria: (i) ownership is transferred at the end of the lease; (ii) the lease contains a bargain

265. Two options exist to address these conflicts. First, the regulations that create inconsistencies could be either amended or withdrawn. Second, the new PA Law could stipulate that financial statements must be prepared in accordance with PSAKs. Laws rank higher than regulations and decrees in the Indonesian legal hierarchy. Consequently, this suggestion would nullify conflicts between PSAKs and regulations.

### Introduce Differential Reporting

266. PSAKs are IAS-based. IAS has been developed on a one-size-fits-all basis. Many countries have implemented differential reporting regimes to reduce compliance costs for smaller, non-publicly accountable organizations. Although some PSAK exemptions are given, these could be dramatically increased (for instance only publicly-listed companies must apply PSAK 56 *Earnings per Share*).

267. There are two common options for implementing a differential reporting regime: (i) each complex standard can contain text constraining its application (see Box 9); and (ii) organizations may be centrally classified for financial reporting purposes (see Box 10).

Box 9. Fijian Application of Differential Reporting: Only Larger, Publicly Accountable Entities Must Apply the More Complex Accounting Standards<sup>186</sup>

#### *Fiji Accounting Standard (FAS) 14 Segment Reporting*

“Application of the FAS is mandatory for all reporting entities that are publicly accountable and for reporting entities that are large. An entity is considered publicly accountable if it has any debt or equity instruments on public issue or has the coercive power to tax, rate or levy to obtain public funds. An entity is considered to be large if it meets any two of the following criteria: (i) its revenue for the accounting period exceeds F\$2.5 million; (ii) its total assets as at balance date exceed F\$1.5 million; or (iii) it employs more than twenty people.”<sup>187</sup>

purchase option; (iii) the lease is for a major part of the asset’s useful life; and (iv) the present value of the minimum lease payments is greater than or substantially equal to the asset’s fair value. Conversely, PSAK 30 lists the following as preconditions for a lease to be classified as a finance lease: (i) the lease has a purchase option at a price that has been agreed by the lessor and lessee prior to the lease commencement; (ii) the present value of minimum lease payments is greater than or equal to fair value of the asset; and (iii) the lease term is for a minimum of two years. (Source: Foo, See Liang. 1997. “Indonesia” in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. p. 355).

<sup>186</sup> ADB. 2002. *Accounting and Auditing Practices in the Republic of the Fiji Islands*. Manila. p. 65.

**Box 10. Sri Lankan Definition of Specified Business Enterprises (SBEs)<sup>188</sup>**

The following have been defined as SBEs by the [Accounting and Auditing Standards] Act [1995] and the regulations made under the Act.<sup>189</sup>

- Companies licensed under the *Banking Act (No. 30) 1988*.
- Companies authorized under the *Control of Insurance Act (No. 25) 1962* to conduct insurance business.
- Companies carrying on leasing businesses.
- Factoring companies.
- Companies registered under the *Finance Companies Act (No. 78) 1988*.
- Companies licensed under the *Securities Act (No. 36) 1987* to operate unit trusts.
- Fund Management Companies.
- Companies licensed under the *Securities Act (No.36) 1987* to conduct business as stockbrokers or stock dealers.
- Companies licensed under the *Securities Act (No. 36) 1987* to operate a Stock Exchange.
- Companies listed in a stock Exchange licensed under the *Securities Act (No. 36) 1987*.
- Other Companies, which: have a turnover exceeding SLRs 500 Million; at the previous financial year-end had shareholders' equity exceeding SLRs 100 Million; at the previous financial year-end had gross assets in excess of SLRs 300 Million; at the previous financial year-end had liabilities to banks and other financial institutions exceeding SLRs 100 Million; or have a staff exceeding 1,000 employees.
- Public Corporations engaged in the sale of goods or the provision of services.
- A group of companies, any one of which falls within any of the above categories. For this purpose, a group of companies" means a holding company and its subsidiaries, the accounts of which have to be consolidated under Section 147 of the *Companies Act (No. 17) 1982*.

268. Two factors influence options for introducing differential reporting. First, embedding differential reporting requirements in each PSAK (e.g., Fiji) would require all PSAKs to be changed whenever the differential criteria changed. Second, prescribing reporting requirements in a central

<sup>187</sup> Fiji Institute of Accountants (FIA). 2002. *Fiji Accounting Standards: FAS 14 Segment Reporting*. FIA: Suva.

<sup>188</sup> ADB. 2002. *Accounting and Auditing Practices in Sri Lanka*. Manila. p. 26.

<sup>189</sup> Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB). 2001. *Information of Importance to Companies, Public Corporations, Directors, Managers, Secretaries and other Officers, and Auditors*. SLAASMB: Colombo.

law (e.g., Sri Lanka) would reduce flexibility to change classifications (because of difficulties in amending existing laws, see page 91).

269. An alternative approach—which is suited to Indonesian circumstances—is to classify entities for reporting purposes in one accounting standard, to which all other standards are cross-referenced.

### **Relegate Non-IAS PSAKs to Guidance Status**

270. At July 2002, 27 of the existing 57 PSAKs had direct IAS parents. Although consistent with IAS, the other 30 PSAKs were based on U.S. GAAP, provided sector-specific rules or addressed particular Indonesian issues. The 30 non-IAS PSAKs create potential conflicts with IAS, particularly as IAS changes over time. Moreover, they adversely influence perceptions of Indonesian accounting standards. In any case, assuming direct IAS adoption, high quality, sector-specific IAS-based model financial statements are available for guidance purposes. It is suggested that a PSAK structural framework be designed with five levels: (i) IASB-PSAKs; (ii) Indonesia-specific PSAKs; (iii) IASB interpretations (SICs); (iv) Indonesia-specific interpretations (ISAKs); and (v) sector and issue-specific guidance.

### **Endorse Standards and Standard-Setting Arrangements**

271. To varying extents, *Bapepam*, BI and DGoT require PSAK usage. It is suggested that the draft PA Law directly requires PSAK use for financial reporting purposes and requires PSAKs to be IAS-compliant.

272. Furthermore, DSAK's standard-setting arrangements meet international norms and are formalized in rules. The 2001 *Academic Paper*<sup>190</sup> envisages an independent accounting standard-setting board operating under DAI's oversight. The proposed arrangement is consistent with international norms and would strengthen DSAK independence.

## **3. A Possible Implementation Approach**

273. There are many ways to implement these suggested changes—resource availability is the major constraint—this section proposes a three-step implementation approach.

---

<sup>190</sup> MOF. 2001. *Academic Draft: Draft of Public Accountant Law*. MOF: Jakarta.

## Step 1: **One Year:** Counter Negative Perceptions and Strengthen Legal Basis

### *Counter Negative Perceptions*

274. An immediate priority is to counter negative perceptions about PSAKs. To this end, DSAK could make a clear media statement explaining the background to PSAKs, particularly their relative merits and international support for their development. Such a statement might emphasize ongoing efforts to ensure IAS compliance.

### *Strengthen Legal Backing for PSAKs and Remove Regulatory Conflicts*

275. The draft PA Law presents an opportunity to reinforce PSAKs and address regulatory conflicts. The introduction of the following articles into the draft PA Law would achieve this objective:

- The DSAK-promulgated PSAKs must be completely consistent with the International Accounting Standards and the International Financial Reporting Standards promulgated by the International Accounting Standards Board.
- All financial statements must be prepared in accordance with PSAKs.<sup>191</sup>
- Where laws or regulations prescribe accounting treatments that conflict with PSAKs, the PSAK treatment shall prevail in the core financial statements and the regulated treatment shall be disclosed by way of a note to the financial statements.

## Step 2: **Two Years:** Eliminate IAS Differences and Design New Arrangements

### *Eliminate Existing IAS Differences*

276. Gaps have developed between IAS and PSAKs, largely due to implementation-timing differences. Appendix 12 suggests changes to align IAS-based PSAKs with their IAS equivalents.

### *Design a New PSAK Structural Framework and Classify Existing PSAKs*

277. It is suggested that a PSAK five-level structural framework be designed (see Table 26). Table 26 also suggests how existing PSAKs and ISAKs might be classified.

---

<sup>191</sup> This would enable government financial accounting standards to be called PSAKs,

Table 26. Suggested PSAK Structural Framework

Level	Description	Possible Classification of Existing Materials <sup>192</sup>
1: IASB-PSAKs	Direct IAS translations.	PSAKs 1, 2, 3, 4, 5, 7, 8, 10, 11, 12, 14, 16, 18, 19, 22, 23, 24, 25, 26, 30, 34, 46, 48, 55, 56, 57 and 58.
2: Indonesia-specific PSAKs	PSAKs that address specific situations (e.g. Shariah Banking).	PSAKs 27, 39, 45 and 59.
3: IASB interpretations (SICs)	Direct translations of Interpretations issued by the IASB SIC.	SICs 1, 2, 3, 5-25 and 27-33.
4: Indonesia-specific interpretations (ISAKs)	Interpretations that address Indonesia-specific situations.	ISAKs 1-4.
5: Sector and issue-specific guidance	Guidance on the accounting treatment of certain items and disclosures for certain industries or sectors.	PSAKs 6, 21, 28, 29, 31, 32, 33, 35, 36, 37, 38, 40, 41, 42, 43, 44, 47, 49, 50, 51, 52, 53 and 54.

#### *Design Entity Classifications and Prepare Consultation Document*

278. The first step in developing a differential reporting regime is to develop an entity classification system. The following illustrative classifications are suggested:

- *Group A: Publicly Accountable or Large Entities:* An entity is considered publicly accountable if it has debt or equity instruments on public issue or has the coercive power to tax, rate or levy to obtain public funds. An entity is considered large if it meets two of the following criteria: (i) its revenue for the accounting period exceeds Rp 20 billion (U.S.\$2.2 million); (ii) its total assets at balance date exceed Rp 10 billion (U.S.\$1.1 million); and (iii) it employs more than 200 people.
- *Group B: Medium Entities:* An entity is considered a medium entity if it is not a Group A entity and it meets two of the following criteria: (i) its revenue for the accounting period exceeds Rp 5 billion (U.S.\$560,000); (ii) its total assets at balance date exceed Rp 2.5 billion (U.S.\$280,000); and (iii) it employs more than 30 people.

<sup>192</sup> Note: The IAS equivalents of PSAKs 13, 15 and 17 have been withdrawn.

- *Group C: Small Entities*: Entities that are not classified as Group A or Group B entities.

*Identify Differential Reporting Exemptions*

279. Countries have varying differential reporting exemptions.<sup>193</sup> Appendix 8 identifies IASs to which differential reporting exemptions might apply. These exemptions should be reviewed for appropriateness in the Indonesian context.

*Identify Option Exclusions*

280. IASs include benchmark and alternative treatments (see Appendix 8). It would be necessary to identify the preferred or mandated treatments for Indonesian purposes.

*Design PSAK Cover Sheet*

281. Under this suggested approach, each PSAK would comprise a cover sheet (see Box II).

Box II. Suggested PSAK Cover Sheet: PSAK 2 Inventories ( <i>Persediaan</i> )			
<b>1. International Accounting Standard (IAS)</b>			
▪ PSAK 2 is based on IAS 2 Inventories.			
<b>2. Option Exclusion</b>			
▪ IAS 2 has two benchmark treatments for cost flow assumptions (FIFO and weighted average), and one allowed alternative treatment (LIFO). In keeping with Indonesian tax regulations, LIFO is not permitted.			
<b>3. Changes to Meet Indonesian Conditions or Requirements</b>			
▪ No changes are made to IAS 2.			
<b>4. Differential Reporting</b>			
	Group A	Group B	Group C
All provisions	✓		
All provisions, except paragraphs x.10-x.11		✓	
All provisions, except paragraphs x.10-x.11 and xx.8			✓

<sup>193</sup> Refer FASB Statement No. 126 *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*; United Kingdom Accounting Standards Board *Financial Reporting Standard for Smaller Entities (FRSSE)*; Institute of Chartered Accountants of New Zealand *Framework for Differential Reporting*; and Canadian Accounting Standards Board Exposure Draft (July 2001), *Differential Reporting*.

**5. Revisions**

- PSAK 2 was last revised on xx.x.200X.

**6. Effective Date**

- This PSAK is effective for financial reports of Group A and Group B entities for the financial year beginning 1 January 200X.
- This PSAK is effective for financial reports of Group C entities for the financial year beginning 1 January 200Y.

**7. Approval**

- DSAK approved PSAK 2 on x July 200X.

*Redesign Revised Standard-Setting Approach*

282. This suggested approach has implications for standard-setting processes, which would have to be reviewed and redesigned as necessary.

*Design Socialization Plan*

283. These changes would have to be supported by a socialization campaign for: (i) financial statement preparers; (ii) DGoT; (iii) investors and lenders; (iv) regulatory agencies; (v) international agencies; (vi) related professional associations (e.g., MAPPI); and (vii) public accountants.

**Step 3: Three Years: Prepare and Release Revised PSAKs**

*Renumber Existing PSAKs to Match IASs*

284. Ease of reference (e.g., to training materials and disclosure checklists) is greatly improved if national accounting standards numbers and paragraph numbering match those of their parent IAS. For instance, IASB publishes IAS implementation materials (IAS 39 *Implementation Guidance: Questions and Answers*<sup>194</sup>).

*Reissue Standards in the New Framework*

285. The revised standards would have to be released before their required implementation for financial reporting.

---

<sup>194</sup> IASB. 2001 July. *IAS 39 Implementation Guidance: Questions and Answers*. IASB: London. URL [www.iasb.org.uk/docs/ias39igc/igc1\\_5.pdf](http://www.iasb.org.uk/docs/ias39igc/igc1_5.pdf).

*Implement Socialization Plan*

286. Although dependent on the socialization plan, this would likely involve developing informative and training materials, designing training programs, and implementing the programs.