



ATTACHMENT VIII
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
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**GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.06**

ACCOUNTING FOR INVESTMENTS



PRESIDEN
REPUBLIK INDONESIA

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1 **GOVERNMENT ACCOUNTING STANDARDS**
2 **STATEMENT NO.06**
3 **ACCOUNTING FOR INVESTMENT**

4 *The standards, which have been set in bold italic type, should be read in*
5 *the context of the commentary paragraphs in this Standard, which are in*
6 *plain type, and in the context of the Conceptual Framework of the*
7 *Government Accounting.*

8 **PREFACE**

9 **Objective**

10 1. The objective of this Standard is to prescribe the accounting
11 treatment for investment and the disclosure of other important information
12 which should be presented in the financial statements.

13 **Scope**

14 2. *This standard should be applied to the presentation of all*
15 *government investments in the general purpose financial statements*
16 *that are prepared and presented on cash basis for the recognition of*
17 *revenues, expenditures, transfers, and financing as well as accrual*
18 *basis for the recognition of assets, liabilities, and equity according to*
19 *the Government Accounting Standards.*

20 3. This standard applies to the reporting entity in preparing the
21 financial statements of the central government, the local government, and the
22 consolidated financial statements, excluding the central/local government
23 business enterprises.

24 4. *This standard prescribes the accounting treatment of*
25 *investment of the central and local government, either for the short-term*
26 *or for the long-term investment, that covers time of recognition,*
27 *classification, measurement, and the method of valuation of investment,*
28 *and also the disclosure thereof in the financial statements.*

29 5. This standard does not prescribe:



- 1 (a) Investment in an associate;
- 2 (b) Joint Cooperation (KSO); and
- 3 (c) Investment in property

4 **DEFINITIONS**

5 ***6. The followings are terms used in this standard with the***
6 ***meanings specified:***

7 ***Associated companies are companies in which the investors have***
8 ***significant influence and are not subsidiary companies or joint venture***
9 ***companies of their investors.***

10 ***Central/Local Government Business Enterprise are legal business***
11 ***entities, whole or part of which capital is owned by the central/local***
12 ***governments.***

13 ***Cost Method is an accounting method which records the value of***
14 ***investment based on the acquisition cost.***

15 ***Equity Method is an accounting method that records the value of initial***
16 ***investment based on the acquisition cost. The said investment value is***
17 ***then adjusted with the changes in the investor's share on the net***
18 ***assets/equity of the investee that occurs after the investment's initial***
19 ***acquisition.***

20 ***Fair Value is the amount for which an asset could be exchanged, or a***
21 ***liability settled, between knowledgeable, willing parties in an arm's***
22 ***length transactions.***

23 ***Historical value is the amount of cash or cash equivalent paid/incurred***
24 ***or the fair value based on certain considerations in order to obtain an***
25 ***investment asset at the time of acquisition.***

26 ***Investment Costs are all costs incurred by the investing entity in***
27 ***acquiring an investment such as broker commission, bank charges,***
28 ***legal fees, and other charges from the stock exchange.***

29 ***Investments are assets intended to gain economic benefits such as***
30 ***interest, dividend, and royalty, or social benefits, for improving***
31 ***government capability in servicing the public.***



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1 ***Long term investments are investments intended to be owned for more***
2 ***than 12 (twelve) months.***

3 ***Market value is the amount that can be obtained from the sales of an***
4 ***investment in an active market between independent parties.***

5 ***Nominal value is the value stated on the marketable securities such as***
6 ***the value stated on each stock and bond.***

7 ***Non-permanent investments are long-term investments that are not***
8 ***included in permanent investments, and are intended to be owned not-***
9 ***continuously.***

10 ***Permanent investments are long-term investments intended to be***
11 ***owned continuously.***

12 ***Short-term investments are investments that can be immediately***
13 ***converted into cash and are intended to be owned for 12 (twelve)***
14 ***months or less.***

15 ***Social benefits meant in this standard are the benefits that cannot be***
16 ***directly measured in monetary units but affect the improvement of***
17 ***government's services to the vast community as well as specific***
18 ***community groups.***

19 **TYPES OF INVESTMENT**

20 7. The government invests for several reasons among others are
21 to utilize the budget surplus to obtain earnings in the long-term, and to make
22 use of idle funds in short-term investments for the sake of cash management.

23 8. There are several types of investments that are evidenced with
24 certificates or other similar documents. The nature of an investment may be in
25 the form of the purchase of debt securities, either short-term or long-term, and
26 also equity instruments.

27 **CLASSIFICATION OF INVESTMENT**

28 9. ***Government investment may be divided in two namely***
29 ***short-term investment and long-term investment. Short-term investment***
30 ***is classified into current assets whereas the long-term investment is***
31 ***classified into the non-current assets.***



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1 10. Short-term investment has to comply with the following
2 characteristics:

- 3 (a) Can be immediately traded/liquidated;
4 (b) The investment is intended for cash management, which means that
5 the government can sell the investment when a need for cash arises;
6 (c) Low risk.

7 11. With due observance to the said criteria mentioned in
8 paragraph 10, therefore, the government purchase of high risk commercial
9 papers is not included in short-term investments since it is affected by the
10 fluctuating market price. The types of investments that are not included in the
11 short-term investments are, among others:

- 12 (a) Commercial papers that are purchased by the government for the
13 purpose of controlling a business entity, such as the purchase of
14 commercial papers in order to increase the share ownership in a
15 business entity;
16 (b) Commercial papers that are purchased by the government for the
17 purpose of maintaining good institutional relationship with other parties,
18 such as the purchase of commercial papers that are issued by an
19 institution, domestic or foreign, to show the participation of the
20 government; or
21 (c) Commercial papers that are not intended to be liquidated in fulfilling
22 short-term cash requirement.

23 12. Investment that can be classified as short-term investment,
24 consists of, among others:

- 25 (a) Time Deposits with three to twelve months terms and/or those that can
26 be extended automatically (revolving deposits);
27 (b) The purchase of short-term government Bonds (SUN) by the central
28 government as well as the local governments and the purchase of
29 Certificates of Bank Indonesia (SBI).

30 **13. Long-term investments are divided according to the**
31 **nature of the investments thereof, namely permanent and non-**
32 **permanent. Permanent investments are the long-term investments that**
33 **are meant to be owned continuously, whereas non-permanent**



1 ***investments will be long-term investments that are not meant to be***
2 ***owned continuously.***

3 14. The meaning of the word continuously is that the investment is
4 meant to be owned continuously without any intention to trade or to withdraw
5 it. Whereas the meaning of the word not continuously is that the ownership of
6 investment with a term more than 12 (twelve) months is not meant to be
7 owned continuously or there is intention to trade or to withdraw it.

8 15. Permanent investments made by the government are
9 investments that are not meant for trading, but to obtain dividends and/or
10 significant influence in the long run and/or to maintain institutional
11 relationship. These permanent investments can be in the form of:

- 12 (a) The government capital participation in a central/local government
13 business enterprises, international organization and other non state-
14 owned entities;
15 (b) Other government permanent investments in order to generate revenue
16 or increase public services.

17 16. Non-permanent investments made by the government, among
18 others can be in the form of:

- 19 (a) The purchase of bonds or long term commercial debt papers that are
20 meant to be owned by the government until the maturity date;
21 (b) Capital investment in a development project that can be transferred to a
22 third party;
23 (c) Funds appropriated by the government in the framework of public
24 services such as revolving fund aid to a community group;
25 (d) Other non-permanent investments, which are not meant to be
26 continuously owned by the government, such as capital participation
27 which is meant for restructuring/restoring of the economy.

28 17. The capital participation of the government can be in the form
29 of commercial papers (shares) of a limited liability company and non
30 commercial papers, namely the capital ownership not in the form of shares, of
31 a non incorporated company.

32 18. Other permanent investments are the form of investment that
33 cannot be included in capital participation, long-term bonds that are
34 purchased by the government, and capital investment in development



1 projects that are transferable to third parties, such as investments in
2 properties that are not included in this Standard.

3 19. Accounting for government's investments in properties and
4 joint cooperation (KSO) will be prescribed in a separate accounting standard.

5 **THE RECOGNITION OF INVESTMENT**

6 ***20. A cash disbursement or asset transaction may be***
7 ***recognized as an investment if it fulfills one of these criteria:***

8 ***(a) The possible economic benefits and social benefits or potential***
9 ***future service on the said investment can be acquired by the***
10 ***government;***

11 ***(b) The acquisition or fair value of such investment can be reliably***
12 ***measured.***

13 ***21. The disbursement to acquire short-term investments will***
14 ***be recognized as government cash disbursement and will not be***
15 ***reported as expenditures in the Statement of Budget Realization,***
16 ***whereas the disbursement to obtain long-term investments will be***
17 ***recognized as financing disbursement.***

18 22. In determining whether cash disbursement or asset transaction
19 fits the first criteria of the above investment recognition, the entity needs to
20 test the level of certainty of the flow of economic and social benefit or
21 potential future services based on evidences supplied at the time of the
22 original recognition. The existence of sufficient certainty, that the future
23 economic benefits or obtainable potential services will occur, needs an
24 assurance that an entity will gain benefits from such assets and will bear the
25 potential risks.

26 23. The investment recognition criteria as stated in paragraph 20
27 point b usually can be met due to an exchange or purchase transaction that is
28 supported by an evidence that states/identifies the acquisition cost. In certain
29 matters, an investment may be obtained not based on the acquisition costs or
30 fair value on the date of acquisition. In such a case, the use of an appropriate
31 estimated value may be justified.



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MEASUREMENT OF INVESTMENT

24. For several types of investments, there are active markets that can create the market value, in case of such an investment the market value is used as a basis of a fair value. If there is no active market for such investment then nominal value, recorded value, or other fair value may be applied.

25. Short-term investments in the form of commercial papers, such as stocks and short-term bonds, are recorded at the amount of the acquisition costs. The acquisition cost of the investment includes the investment transaction price plus the sales and purchase intermediary commission, bank charges and other costs incurred in the process of such acquisition.

26. In the event of an investment in the form of commercial papers are obtained without acquisition cost, therefore the investments are valued based on the fair value of investments at the time of acquisition, that is its market price. If there is no fair value, then the acquisition cost will be the equivalent of cash exchanged or the fair value of other asset exchanged.

27. Short-term investments in the form of non-shares, such as short-term deposits, are recorded in the amount of the nominal value of such deposits.

28. Long-term investments which are permanent in nature such as government capital participations, are recorded in the amount of the acquisition cost comprising the investment transaction cost plus other costs incurred in the course of acquiring the said investment.

29. Non-permanent investments such as in the form of long-term bonds purchase and investments that are not meant to be owned continuously, are valued according to their acquisition costs. Whereas investments in the form of bridging funds for bank restructuring that will immediately be liquidated, are valued in the amount of the net realizable value.

30. Non-permanent investments in the form of capital investment in government development projects such as Community Core Plantation (PIR) project, will be valued in the amount of



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1 *development costs including costs incurred for planning and other*
2 *costs incurred in the project completion course until the project is*
3 *delivered to the third party.*

4 *31. If a long-term investment is acquired from the exchange of*
5 *government assets, then the value of investment acquired by the*
6 *government is the amount of the acquisition costs or fair value of the*
7 *investment if the acquisition price is not available.*

8 *32. Investment acquisition price in foreign exchange must be*
9 *stated in Rupiah by using the effective exchange rate (Central Bank mid-*
10 *rate) on the date of transaction.*

11 **METHODS OF INVESTMENT VALUATION**

12 *33. There are three methods of investment valuation, namely:*

13 *(a) Cost method;*

14 *Under the cost method, the investment should be recorded in the*
15 *amount of the acquisition cost. Earnings on the said investment*
16 *are recognized in the amount of the earnings received and should*
17 *not affect the amount of investment to the business entity or*
18 *related legal entity.*

19 *(b) Equity method;*

20 *Under the equity method, the government records the initial*
21 *investment in the amount of the acquisition cost added or*
22 *subtracted by the amount of government share of profit or loss*
23 *subsequent to date of acquisition. The share of profit, except for*
24 *dividends in the form of shares that are received by the*
25 *government, will reduce the government investment value and*
26 *will not be reported as earnings. The adjustment to the*
27 *investment value will also be needed to change the government*
28 *investment ownership portion, such as the changes that arise as*
29 *a result of foreign exchange and the revaluation of fixed assets.*

30 *(c) Net realizable value method;*

31 *The net realizable value method is used especially for the*
32 *ownership that is to be released/sold in the near future.*



1 **34. The use of the methods in paragraph 33 is based on the**
2 **following criteria:**

- 3 **(a) Ownership of less than 20%, uses the cost method;**
4 **(b) Ownership from 20% up to 50%, or ownership less than 20% but**
5 **has significant influence, uses the equity method;**
6 **(c) Ownership of more than 50%, uses the equity method;**
7 **(d) Ownership of non-permanent nature, uses net realizable value**
8 **method.**

9 35. In certain conditions, the criteria of the magnitude percentage
10 of share ownership is not a determining factor in selecting the investment
11 valuation method, but rather the degree of influence or control over the
12 investee company. The indications of existence of an influence or control over
13 an investee company, are among others:

- 14 (a) The ability to influence the composition of the Board of
15 Commissioners;
16 (b) The ability to appoint or replace directors;
17 (c) The ability to appoint and replace the board of Directors of the investee
18 company;
19 (d) The ability to control the majority of votes in a shareholder
20 meeting/Board of Directors meeting.

21 **RECOGNITION OF THE INVESTMENT** 22 **EARNINGS**

23 **36. Investment earnings from short-term investments, among**
24 **other in the form of deposit interests, bond coupons, and cash**
25 **dividends, are recorded as revenues.**

26 **37. Investment earnings in the form of cash dividend from**
27 **government capital participation which is recorded under the cost**
28 **method, are recorded as revenue from investments. Whereas if the**
29 **equity method is used, the government share of profit that is received**
30 **are recorded as a deduction to the value of the government investment**
31 **and are not recorded as investment earnings. Except for dividends**
32 **received in the form of shares, such proceeds should be recorded as an**



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1 *increase to the government investment value and the corresponding*
2 *account of Equity from Long Term Investments.*

3 **DISPOSAL AND RECLASSIFICATION OF** 4 **INVESTMENT**

5 *38. The disposal of government investment may occur as a*
6 *result of sales, the release of rights due to the government regulations,*
7 *and others.*

8 *39. The proceeds from the sales of short-term investments*
9 *should be recognized as government cash receipts and should not be*
10 *reported as revenues in the Statement of Budget Realization, whereas*
11 *proceeds from the disposal of a long-term investment will be recognized*
12 *as financing receipt. The disposal of a portion of the government*
13 *investments should be valued by using the average value.*

14 *40. Average value is obtained by dividing the total investment*
15 *value by the total number of shares that are owned by the government.*

16 *41. The change of investment classification can be in the form*
17 *of reclassification of permanent investments into short-term*
18 *investments, fixed assets, other assets, and vice versa.*

19 **DISCLOSURE**

20 *42. Other matters that need to be disclosed in the government*
21 *financial statements in relation to government investment are, among*
22 *others:*

- 23 *(a) Accounting policies for determining investment values;*
24 *(b) Types of investments, permanent and non-permanent*
25 *investments;*
26 *(c) Changes in the market price, either short-term or long-term*
27 *investments;*
28 *(d) The significant decrease of investment values and their cause*
29 *thereof;*
30 *(e) Investments valued with fair values and the reason for the*
31 *implementation thereof;*



1 **(f) Changes in investment accounts.**

2 **EFFECTIVE DATE**

3 **43. This Government Accounting Standard becomes effective**
4 **for the financial statements covering periods beginning with budget**
5 **year of 2005.**

THE PRESIDENT OF THE REPUBLIC OF INDONESIA
(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original
THE STATE SECRETARIAT OF THE RI
Head of Administration Bureau,
(Signed)
Sugiri, S.H.