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REPUBLIK INDONESIA

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GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.10

CORRECTION OF ERRORS, CHANGES IN ACCOUNTING POLICY, AND EXTRAORDINARY EVENTS

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the accounting for correction of errors, changes in accounting policy, and extraordinary events.

Scope

2. In preparing and presenting financial statements, an entity must apply this Standard to report the effects of errors, changes in accounting policy, and extraordinary events.

3. This Standard applies for the reporting entity in compiling financial statements which consist of financial statements of all accounting entities, including Public Services Body (BLU), which is organizationally within the Central/Local Government.

DEFINITIONS

4. The followings are terms used in the Standard with the meaning specified:

<u>Accounting Policies</u> are the specific principles, bases, conventions, rules, and practices adopted by a reporting entity in preparing and presenting financial statements.

<u>Correction</u> refers to amendment actions so that accounts presented in an entity's financial statements turn into what they are supposed to.

<u>Errors</u> are presentation of accounts, which are significantly different from they are supposed to that affect financial statements at the current or prior period of the financial statements.

<u>Extraordinary events</u> are events or transactions which are significantly different from an entity's ordinary activities and therefore are not

expected to occur and are out of control or influence of the entity, and have significant impact on budget realization or assets/liabilities balance.

CORRECTION OF ERRORS

5. Errors in preparing the financial statements of one or more prior periods may be found in the current period. Errors may occur as a result of the lateness of submission of budget transaction source documents by budget users, mathematical calculation mistakes, errors in applying accounting standard and policies, errors in misinterpretation of facts, frauds, or oversights.

6. In certain circumstance, errors may have significant influence to one or more financial statements of prior periods that result in the unreliability of such financial statements.

7. Errors based on the nature of their occurrence are categorized into two types:

(a) Unrepeated errors;

(b) Repeated and systemic errors.

8. Unrepeated errors are errors which are expected not to occur again, which are grouped into two types:

(a) Unrepeated errors which occur during the current period,

(b) Unrepeated errors which occur during the prior period.

9. The repeated and systemic errors are errors caused by certain ordinary natural transactions, which are estimated to occur repeatedly. For example, the tax revenue from the taxpayers that requires corrections, thus allows tax restitution or additional payment from taxpayers.

10. Every error should be corrected as soon as discovered.

11. Correction of unrepeated errors that occurs during current period, either or not affects the cash position, should be corrected to the related accounts.

12. Correction of unrepeated errors that occurs during prior periods and affects cash position, if the financial statements of the related period has not yet been issued, should be corrected to the revenue or expenditure accounts for the current period.

13. Correction of errors on expenditure account (which results in deduction of expenditure) which is unrepeated and occurs during prior periods and affects the cash position as well as materially affects non-cash assets position, if such financial statements during the period have already been issued, should be corrected to the related revenue account, assets account, and equity account.

14. Correction of errors on expenditure account (which results in deduction of expenditure) which is unrepeated and occurs during prior periods and affects the cash position as well as materially does not affect non-cash assets position, if such financial statements during the period have already been issued, should be corrected to the other revenue account.

15. Correction of errors, which is unrepeated and occurs during prior periods and affects the cash position, if such financial statements during the period have already been issued, should be corrected to the current equity account.

16. The financial statements are considered to have been issued, if they have already been promulgated in the law or local government regulations.

17. Corrections of error as mentioned in paragraph 13, 14, and 15 should not instantly affect the budget or related entity expenditure ceiling in the period when the corrections are made. The prior period correction of revenue account and the prior period correction of expenditure account should be presented separately in the Statement of Budget Realization. The impact of error correction should be further disclosed in the Notes to the Financial Statements.

18. Correction of errors on expenditure as explained in paragraphs 13 and 14 may be divided in two categories, namely the one that adds to the cash balance and the one that reduces the cash balance. An example of correction of errors for expenditure which adds to the cash balance is the return of employee expense due to error in calculating the employee salary which should be corrected by adding the cash balance and other revenue. An example of correction of errors on expenditure which reduces the cash balance can be found in the prior year's employee expenses which have not yet been reported, which should be corrected by deducting the current equity account and deducting the cash balance. The error correction related to expenditures for assets, is applied to the related assets and investment equity account, besides the cash balance and other income. For example, the difference of marked-up capital expenditure found during audit needs to be returned, hence the correction to be carried out is to add cash and other revenue account, and to deduct the fixed assets account and investment equity account.

19. Correction of errors on revenue as explained in paragraph 15 may be divided into two, namely, the one that adds to the cash balance and the one that reduces the cash balance. An example of correction of errors on revenue which adds to the cash balance is the presence of transaction on profit shares of government business enterprises (BUMN), which has not been reported. In such case, the necessary correction is done by adding the cash balance and current equity. An example of correction of errors on revenue which reduces cash balance is an error in returning revenue from General Allocation Fund (DAU) due to the excess of transfer. In such case, the required correction is done by deducting the cash balance and current equity.

20. Correction of unrepeated errors which occurs during prior periods and does not affect the cash position, either before or after the issuance of the financial statements, should be corrected to the related account(s) in the Statement of Financial Position for the period when the error was found.

21. An example of errors which does not affect the cash position as mentioned in paragraph 20 is expenditures for acquiring office equipments (fixed assets), which are reported as travel expenses. In such case, the correction required is to journalize the fixed assets account on debit side and to journalize the investment equity for fixed assets account on credit side.

22. The repeated and systemic errors as mentioned in paragraph 9 do not require corrections, but they are directly recorded immediately after the occurrence.

23. Cumulative effects from correction of errors related to prior periods on the cash position are reported in certain lines in the Statement of Cash Flow during the current year.

CHANGES IN ACCOUNTING POLICY

24. Users need to compare the financial statements of a reporting entity from time to time to get information on trends of the financial position, performance, and cash flow. Hence, the accounting policy to be adopted must be applied consistently for each period.

25. Changes in accounting treatment, recognition, or measurement as the results of changes in accounting basis, capitalization criteria, methods, and estimates, are examples of changes in accounting policy.

26. Changes in accounting policy must be conducted only when application of a different accounting policy is required by regulations or government accounting standard, or if it is expected that the changes will result in information concerning financial position, financial performance, or cash flow that are more relevant and more reliable in presenting the financial statements of an entity.

27. Changes in accounting policy do not include the followings:

(a) adoption of an accounting policy for events or circumstances, which are substantially different from the prior events or circumstances; and

(b) adoption of a new accounting policy for previously non-existing or immaterial events or transactions.

28. The adoption of a policy to revaluate assets is considered as a change in accounting policy. However, such change should be made in accordance with the related accounting standards relating to revaluation.

29. Changes in accounting policy and their effects should be disclosed in the Notes to the Financial Statements.

EXTRAORDINARY EVENTS

30. An extraordinary event describes an event or transaction, which is significantly different from ordinary activities. A government entity's social or natural disaster reliefs which occur repeatedly are considered as ordinary activities. Accordingly, extraordinary event is event that is rare or never occurs.

31. An event that is not under the control or influence and difficult to anticipate by the entity, is an event which is not reflected in the budget. An event or transaction that is not under the control or influence of an entity might be extraordinary event for that entity or that certain Government level, but such similar event might not be classified as extraordinary for other entities or levels of government.

32. Extraordinary events that significantly impact the budget realization, and thus fundamentally require basic budgetary changes, are those events that individually absorb the majority of unexpected expenditure budget or emergency funds.

33. The amount of unexpected expenditure budget or other expenditure budget aimed for emergency purposes is usually determined based on the estimates by using information on emergency events occurred in previous years. If an emergency event, disaster, and so forth occurs during the current year which causes absorption of funds from the budget, the event is not automatically considered an extraordinary event, particularly if such event does not absorb a significant portion of the available budget. However, if such individual event absorbs 50% (fifty percent) or more of the annual budget, then the event is fairly classified as an extraordinary event. As a guideline, the result of the large absorption of funds may require the entity to change or shift the budget in order to fund such extraordinary event or other event that should have been funded with the unexpected expenditure budget or other budgets for emergency purposes.

34. Significant impacts on assets/liabilities position due to extraordinary events are met if such events or transactions cause fundamental changes in the existence or value of assets/liabilities of an entity.

35. Extraordinary events have to meet the following conditions:

(a) Not an ordinary activity of the entity;

(b) Not expected to occur nor expected to occur repeatedly;

(c) Not under the control or influence of the entity;

(d) Cause significant impact on the realization or assets/liability position.

36. The nature, amount and influence caused by extraordinary events have to be disclosed separately in the Notes to the Financial Statements.

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EFFECTIVE DATE

37. This Government Accounting Standard becomes effective for the financial statements covering periods beginning with budget year of 2005.

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

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Head of Administration Bureau,

(Signed)

Sugiri, S.H.