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# **CONCEPTUAL FRAMEWORK OF THE GOVERNMENT ACCOUNTING**



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# 1      **CONCEPTUAL FRAMEWORK OF THE GOVERNMENT** 2      **ACCOUNTING**

## 3      **PREFACE**

### 4      **Objective**

5                    1. This Conceptual Framework formulates the concept that  
6      supports the preparation and presentation of central and local government  
7      financial statements. The objective is as reference for:

- 8      (a) the standard setter (the Government Accounting Standard Committee)  
9          in carrying out their duties;
- 10     (b) the preparers of financial statements in handling accounting issues that  
11          are not prescribed in the standards;
- 12     (c) the auditors in rendering opinion whether the financial statements are  
13          prepared in accordance with government accounting standards; and
- 14     (d) the users of financial statements in interpreting information presented in  
15          the financial statements which are prepared in accordance with  
16          Government Accounting Standards.

17                    2. This conceptual framework functions as a reference in the  
18      event there are accounting problems that have not been prescribed in the  
19      Government Accounting Standards.

20                    3. If there is a conflict between the conceptual framework and the  
21      accounting standards, then the accounting standards have more superiority  
22      than this conceptual framework. In the long run, such conflicts are expected  
23      to be resolved with the development of accounting standards in the future.

### 24     **Scope**

25                    4. This conceptual framework elaborates:

- 26     (a) the objective of the conceptual framework;
- 27     (b) the environment of the government accounting;
- 28     (c) the users and their information needs;
- 29     (d) the reporting entity;
- 30     (e) the roles, objectives, and legal basis of financial statements;
- 31     (f) basic assumptions, qualitative characteristics that determine the  
32          usefulness of information in financial statements, principles, and  
33          constraints of accounting information; and
- 34     (g) definitions, recognitions, and measurements of components that form  
35          the financial statements.



1                   5. This conceptual framework applies to the financial statements  
2 of both central and local government.

## 3 **GOVERNMENT ACCOUNTING ENVIRONMENT**

4                   6. The operational environment of the government organization  
5 influences the characteristics of its accounting objective and its financial  
6 statements.

7                   7. Important characteristics within the government environment  
8 that need to be considered when determining the objective of accounting and  
9 financial statements are the followings:

10 (a) The main characteristic of government structure and the services it  
11 provides:

- 12                   (1) the general form of government and separation of power;
- 13                   (2) the decentralized government system and the transfer of revenue  
14 within the government;
- 15                   (3) the influence of the political process;
- 16                   (4) the relationship between the tax payment and the government  
17 services.

18 (b) Characteristics of government finances which are important for control:

- 19                   (1) Budget as a statement of public policy, fiscal target, and as control  
20 instrument;
- 21                   (2) investment in assets that does not directly generate revenue; and
- 22                   (3) the possibility of applying of the fund accounting for the control  
23 purposes.

## 24 **The General Form of Government and** 25 **Separation of Power**

26                   8. In the Republic of Indonesia, a nation with the principle of  
27 democracy, power is in the hands of the people. The people delegate power  
28 to public officials through the process of public election. In conjunction with  
29 this delegation of power there is a separation of authorization among  
30 executive, legislative, and judicative. This system is intended to supervise and  
31 maintain a balance of the possibility of misuse of power among the state  
32 officials.

33                   9. As customary procedures in the government financial  
34 environment, the executive prepares the budget and submits it to the  
35 legislative for approval. After obtaining the approval, the executive will  
36 execute the budget within the limit of appropriations and regulations. The



1 executive is accountable for the implementation of such finances to the  
2 legislative and to the public.

## 3 **The Decentralization Government System and** 4 **The Transfer of Revenues within the** 5 **Government**

6 10. Substantially, there are three scopes of government within the  
7 government system of the Republic of Indonesia, namely the central  
8 government, the provincial government, and the district/city (*kabupaten/kota*)  
9 government. A government with a wider scope gives direction to the  
10 government with a narrower scope. The government entities that generate  
11 higher tax revenue or non-tax revenue result in the implementation of a  
12 revenue-sharing system, allocation of general fund, grants, or subsidies  
13 among government entities.

## 14 **The Influence of Political Process**

15 11. One of the main objectives of the government is to improve all  
16 public welfare. In relation to this, the government endeavors to create fiscal  
17 balance by maintaining the sustainability of state finances that are sourced  
18 from tax revenue and other sources in order to meet the public needs. One of  
19 the important characteristics in creating such balance is the ongoing political  
20 process to adapt to the various interests within the public.

## 21 **The Relationship between Tax Payment and** 22 **Government Services**

23 12. Although in certain circumstances the government directly  
24 charges on services that it provides, basically a large part of government  
25 revenues comes from tax collections in the framework of providing services to  
26 the public. The total of collected taxes has no direct relationship to the  
27 services provided by the government. Taxes collected and services provided  
28 by the government contain certain characteristics that have to be considered  
29 in developing financial statements, among others are the followings:

- 30 (a) Tax payments are not sources of voluntary income.  
31 (b) The amount of tax paid is determined by the basis of taxes imposed as  
32 determined by statutory regulations, such as income generated, assets  
33 owned, value added economic activities, or the value of the benefit  
34 received.



- 1 (c) The efficiency of services provided by the government compared to the  
2 collections which are expended for such services is often difficult to  
3 measure due to the monopoly of services by the government. With the  
4 possibility of private parties to provide such services, such as education  
5 and health services, then the measurement of the efficiency of services  
6 by the government becomes easier.
- 7 (d) The measurement of quality and quantity of various services provided  
8 by the government is relatively difficult.

## 9 **The Budget as a Statement of Public Policy,** 10 **Fiscal Target, and Control Instrument**

11 13. The government budget is a formal document that binds the  
12 executive and the legislative on expenditures for executing government  
13 activities and the expected revenue to cover such expenditures or the  
14 financing required if it is estimated that a deficit or surplus should occur. As  
15 such, the budget coordinates government expenditure activities and provides  
16 a foundation for efforts of generating the revenues and financing by the  
17 government for a certain period which normally is annual. However, this does  
18 not mean that the government may not prepare the budget for a longer or  
19 lesser period of one year. As such, the budget in government has vital roles in  
20 the accounting and reporting of finance, among others because:

- 21 (a) The budget is a public policy statement.
- 22 (b) The budget is a fiscal target that illustrates the balance among  
23 expenditures, revenues, and the financing needed.
- 24 (c) The budget is a basis of control which may have legal consequences.
- 25 (d) The budget provides a basis of evaluation on government performance.
- 26 (e) The results of execution of the budget are included in government  
27 financial statements as a statement of government accountability to the  
28 public.

## 29 **The Investment in Non-Revenue Generating** 30 **Assets**

31 14. The government invests substantial funds in the form of assets  
32 that do not directly generate revenues for the government, such as office  
33 buildings, bridges, roads, parks, and reservation areas. A large portion of  
34 those assets are intended to have a long useful life; thus, an adequate  
35 maintenance and rehabilitation program is required to maintain the intended  
36 benefit. As such, the function of government assets differs from those of



1 commercial organizations. A large part of such assets does not generate  
2 direct revenue for the government, and even it may result in the government's  
3 commitment to maintain such assets in the future.

## 4 **The Possibility of Applying Fund Accounting for** 5 **Control Purposes**

6 15. Fund Accounting is an accounting system and financial  
7 reporting normally applied within the government environment that separates  
8 categories of funds according to the purposes, thus each respective fund  
9 category will constitute an accounting entity that is capable of presenting a  
10 balance between expenditure and revenue or transfer received. Fund  
11 accounting can be applied for purposes of control by each respective fund  
12 category other than the general fund category; therefore, consideration of  
13 fund accounting will be required in the development of the government  
14 financial reporting.

## 15 **USERS AND THEIR INFORMATION NEEDS**

### 16 **Users of Financial Statements**

17 16. There are several main group of users of government financial  
18 statements; some of them are:

- 19 (a) the public;
- 20 (b) the people's representatives, supervisory institutions, and audit  
21 institutions;
- 22 (c) the parties that have roles in donations, investments and loans; and
- 23 (d) the government.

### 24 **Information Needs**

25 17. The information presented in the general purpose financial  
26 statements is intended to fulfill information needs of all groups of users. As  
27 such the government financial statements is not designed to fulfill any specific  
28 need from each respective user. Nevertheless, since taxes are the main  
29 source of government revenue, therefore the provisions of financial  
30 statements that fulfill information needs of the taxpayers need to be  
31 considered.





1 18. Although it has access to information details contained in the  
2 financial statements, the government is obliged to pay attention to the  
3 information presented in the financial statements for planning, controlling, and  
4 decision-making purposes. Thereafter, the government can determine the  
5 forms and types of additional information for its own requirements other than  
6 the information type stipulated in this Conceptual Framework as well as the  
7 accounting standards.

## 8 **REPORTING ENTITY**

9 19. A reporting entity is a government unit that consists of one or  
10 more accounting entities which according to the prevailing statutory  
11 regulations is obliged to submit accountability reports in the form of financial  
12 statements; the reporting entity consist of:

- 13 (a) Central government;
- 14 (b) Local governments;
- 15 (c) Organization units within the environment of the central/local  
16 government or other organizations, if according to the statutory  
17 regulations such organization units are obliged to present financial  
18 statements.

19 20. In determining a reporting entity, consideration should be given  
20 to the requirements of management, control, and power of a reporting entity  
21 on certain assets, jurisdiction, assignment and mission, and the form of  
22 accountability and authorization separated from other reporting entities.

## 23 **ROLES AND OBJECTIVES OF FINANCIAL** 24 **STATEMENTS**

### 25 **The Roles of Financial Statements**

26 21. Financial statements are prepared to provide relevant  
27 information concerning the financial position and all transactions undertaken  
28 by a reporting entity during one reporting period. Financial statements are  
29 mainly used to compare the realization of revenues, expenditures, transfers,  
30 and financing against the determined budget, to evaluate the financial  
31 condition, to assess the effectiveness and efficiency of a reporting entity, and  
32 to assist in determining its compliance to the prevailing statutory regulations.



- 1                    22. Each reporting entity has the obligation to report systematically  
2 and structurally the efforts as well as the results achieved in the  
3 implementation of activities in the reporting period for the purpose of:
- 4        (a)    Accountability
- 5                    To discharge the management of resources and implementation of  
6 policies entrusted to the reporting entity in achieving the determined  
7 objectives, periodically.
- 8        (b)    Management
- 9                    To assist the users to evaluate the implementation of activities of a  
10 reporting entity in the reporting period thereby facilitating the function of  
11 planning, management, and control of all assets, liabilities, and equity of  
12 the government for public interest.
- 13        (c)    Transparency
- 14                    To provide financial information that is open and honest to the public  
15 based on the consideration that the public has the right to know openly  
16 and totally on the responsibility of the government in the management of  
17 resources entrusted to the government and its compliance to the  
18 statutory regulations.
- 19        (d)    Intergenerational equity
- 20                    To assist the users to find out the adequacy of government revenues  
21 within the reporting period to finance all allocated expenditures and  
22 whether the coming generation is assumed to participate in bearing the  
23 burden of such expenditures.

## 24                    **The Objective of Financial Statements**

- 25                    23. Government financial statements should present information  
26 that is useful for the users in assessing accountability as well as in making  
27 adequate economic, social, and political decisions by way of the followings:
- 28        (a)    To provide information concerning adequacy of revenues during the  
29 current period to finance all expenditures.
- 30        (b)    To provide information concerning the suitability of method of acquiring  
31 economic resources and allocation of such through the budget and  
32 statutory regulations.
- 33        (c)    To provide information concerning the total of economic resources that  
34 is used in the activities of the reporting entity and also the results that  
35 have been achieved.
- 36        (d)    To provide information concerning how the reporting entity has funded  
37 all its activities and provided for adequate cash requirements.
- 38        (e)    To provide information concerning the financial position and condition of  
39 the reporting entity in relation to the sources of its revenue, both short-



1 term as well as long-term, including such originating from tax collections  
2 and loans.

3 (f) To provide information concerning changes in the financial position of  
4 the reporting entity, whether increases or decreases have occurred, as  
5 a result of the activities undertaken during the reporting period.

6 24. To achieve these objectives, the financial statements should  
7 provide information concerning revenues, expenditures, transfers, reserved  
8 funds, financing, assets, liabilities, equity, and cash flows of a reporting entity.

## 9 **COMPONENTS OF FINANCIAL STATEMENTS**

10 25. The main financial statements would consist of:

- 11 (a) Statement of Budget Realization;
- 12 (b) Statement of Financial Position;
- 13 (c) Statement of Cash Flow;
- 14 (d) Notes to the Financial Statements.

15 26. Besides the main financial statements mentioned in paragraph  
16 25, the reporting entity is allowed to present a Statement of Financial  
17 Performance and a Statement of Changes in Equity.

## 18 **LEGAL BASIS OF FINANCIAL STATEMENTS**

19 27. Government financial statements are conducted based on the  
20 statutory laws that regulate government finances, among others:

- 21 (a) The Constitution of the Republic of Indonesia, specifically the portion  
22 that regulate state finances;
- 23 (b) The law on state finances;
- 24 (c) The law on the Revenue and Expenditure Budget for Central  
25 Government (APBN);
- 26 (d) Statutory regulations that regulate local governments, specifically those  
27 regulating local finances;
- 28 (e) Statutory regulations that regulate the balance of central and local  
29 finances;
- 30 (f) Lawful provisions concerning the execution of the Revenue and  
31 Expenditure Budget for Central/Local Government (APBN/APBD); and
- 32 (g) Other statutory regulations that regulate central and local finances.



## 1      **BASIC ASSUMPTIONS**

2                    28. The basic assumptions of financial statements in the  
3 government environment are premises accepted as truth without having to be  
4 proven in order that accounting standards can be applied, which consist of:

- 5            (a) Independence of the entity;  
6            (b) Going concern of the entity; and  
7            (c) Monetary measurement.

## 8      **Independence of the Entity**

9                    29. The assumption of independence of the entity, whether a  
10 reporting or accounting entity, means that each organization unit is assumed  
11 as an independent unit and has the obligation to present financial statements  
12 thus preventing the occurrence of disruption between government institution  
13 units in financial statements. One of the indications of fulfillment of such  
14 assumption is the authority of the entity to prepare a budget and execute such  
15 with full responsibility. The entity is responsible for the management of assets  
16 and resources for the interest of jurisdiction of its main assignment, including  
17 for the loss of or damages to the assets and resources mentioned, payables-  
18 receivables that arise due to the decisions of the entity and the  
19 implementation or non-implementation of the predetermined program.

## 20     **Going Concern of the Entity**

21                    30. The financial statements are prepared with the assumption that  
22 the reporting entity will be continued in its existence. Hence, the government  
23 is assumed as having no intention of liquidating a reporting entity in the short-  
24 term.

## 25     **Monetary Measurement**

26                    31. The financial statements of the reporting entity should present  
27 each activity which is assumed monetarily measurable. This is necessary to  
28 facilitate an analysis and measurement in accounting.

## 29     **QUALITATIVE                    CHARACTERISTICS                    OF** 30     **FINANCIAL STATEMENTS**

31                    32. The qualitative characteristics of financial statements are  
32 normative measurements that need to be established in accounting  
33 information to achieve their objectives. The four following characteristics are



1 necessary normative pre-requisites in order that government financial  
2 statements can fulfill the qualities desired:

- 3 (a) Relevant;
- 4 (b) Reliable;
- 5 (c) Comparable; and
- 6 (d) Understandable.

## 7 **Relevant**

8 33. Financial statements are considered relevant if information  
9 contained therein can influence the users decisions by assisting them in  
10 evaluating past or current events, and predicting the future, as well as  
11 confirming or correcting the results of their past evaluations. Hence, the  
12 relevant information in the financial statements can be linked to its purpose.

13 34. Relevant information has the following characteristics:

- 14 (a) Possessing feedback value  
15 Information that allows users to confirm or correct their past  
16 expectations.
- 17 (b) Possessing predictive value  
18 Information that can assist users to predict the future based on results  
19 of the past and the current events.
- 20 (c) Timely  
21 Information is presented on-time thereby is able to influence and useful  
22 in decision making.
- 23 (d) Complete  
24 Government financial accounting information is presented as complete  
25 as possible, namely to include all accounting information that can  
26 influence decision making. The information that supports every item  
27 contained in the financial statements should be disclosed clearly in  
28 order that errors in the use of such information can be prevented.

## 29 **Reliable**

30 35. Information in the financial statements is free from misleading  
31 interpretation and material errors, presents each fact honestly, and is  
32 verifiable. Information may be relevant, but if the substance or the  
33 presentation of such is unreliable then the use of such information may be  
34 potentially misleading. Reliable information fulfills the following  
35 characteristics:

- 36 (a) Honest Presentation



1 Information that honestly illustrates transactions and other events that  
2 should be presented or that are expected to be fairly presented.

3 (b) Verifiability

4 The information presented in the financial statements can be tested,  
5 and if the tests are conducted more than once by different parties, the  
6 results still show a not too different conclusion.

7 (c) Neutrality

8 The information is directed toward general needs and does not incline to  
9 any certain needs of any certain party.

## 10 **Comparable**

11 36. The information contained in the financial statements is more  
12 useful, if it is comparable against the financial statements of the previous  
13 period or against other financial statements of reporting entities in general.  
14 The comparison can be conducted internally and externally. Internal  
15 comparison can be conducted if an entity applies the same accounting policy  
16 from year to year. External comparison can be conducted if the entities under  
17 comparison apply similar accounting policies. If the government entity applies  
18 better accounting policies than the accounting policies presently applied, such  
19 changes should be disclosed in the period when such changes occur.

## 20 **Understandable**

21 37. Information presented in financial statements is  
22 understandable by users and it is stated in form and terms suited within the  
23 limitation of understanding of the users. For this, users are assumed to have  
24 adequate knowledge on the activities and environment of operations of the  
25 reporting entity, and there should also be the willingness of the users to learn  
26 about such information.

## 27 **PRINCIPLES OF ACCOUNTING AND FINANCIAL** 28 **REPORTING**

29 38. The principles of accounting and financial reporting are  
30 intended as provisions that are understood and complied with by the standard  
31 setter committee in the development of accounting standards, by those  
32 conducting accounting and financial reporting in carrying out their activities,  
33 and by users of financial statements in understanding them. Following are  
34 eight principles applied in accounting and financial reporting of the  
35 government:



- 1 (a) Accounting basis;
- 2 (b) Principle of historical cost;
- 3 (c) Principle of realization;
- 4 (d) Principle of substance over form;
- 5 (e) Principle of periodicity;
- 6 (f) Principle of consistency;
- 7 (g) Principle of full disclosure; and
- 8 (h) Principle of fair presentation.

## 9 **Accounting Basis**

10 39. The accounting basis applied in government financial  
11 statements is cash basis for recognition of revenues, expenditures, and  
12 financing in the Statement of Budget Realization and accrual basis for  
13 recognition of assets, liabilities, and equity in the Statement of Financial  
14 Position.

15 40. The cash basis for the Statement of Budget Realization means  
16 that the revenues are recognized at the time the cash is received in the  
17 Account for Central/Local Government Cash or by the reporting entity and  
18 expenditures are recognized at the time the cash is disbursed from the  
19 Account for Central/Local Government Cash or the reporting entity. The  
20 reporting entity does not use the term 'profit'. The determination of balance of  
21 budget financing whether surplus or deficit for each period depends on the  
22 difference of realization of receipt to disbursement. Non-cash revenues and  
23 expenditures such as overseas loan in the form of goods or services are  
24 presented in the Statement of Budget Realization.

25 41. Accrual basis for the Statement of Financial Position means  
26 that assets, liabilities, and equity are recognized and recorded at the time of  
27 transaction, or at the time of occurrence or condition of the environment  
28 influences government finances, regardless the time when the cash or its  
29 equivalent is received or paid.

30 42. The reporting entity that presents the Statement of Financial  
31 Performance as mentioned in paragraph 26 carries out accounting and  
32 financial statements presentation by applying full accrual basis, both in the  
33 recognition of revenues, expenditures, and financing as well as in the  
34 recognition of assets, liabilities, and equity. Nevertheless, the presentation of  
35 the Statement of Budget Realization remains to be based on cash basis.





## 1      **Historical Cost**

2                    43. Assets are recorded in the amount of the disbursement of cash  
3                    or its equivalent or in the amount of a fair value given to acquire such assets  
4                    at the time of acquisition. Liabilities are recorded in the amount of the cash or  
5                    its equivalent expected to be paid to fulfill liabilities in the future in carrying out  
6                    the government activities.

7                    44. The historical cost is more reliable than other values since this  
8                    is more objective and is verifiable. In the event there is no historical cost, then  
9                    a fair value of the related assets or liabilities can be used.

## 10     **Realization**

11                   45. For the government, the available revenues which have been  
12                   authorized through the government budget during one fiscal year will be used  
13                   to pay debts and expenditures within such period.

14                   46. The matching of costs against revenues principle in  
15                   government accounting is not much emphasized as in commercial  
16                   accounting.

## 17     **Substance Over Form**

18                   47. The information is intended to present fairly transactions and  
19                   other events that should be presented, therefore such transactions or other  
20                   events need to be recorded and presented according to the substance and  
21                   economic reality, and not only based on formality aspects. If the substance of  
22                   transactions or other events are inconsistent/ different from its formality  
23                   aspects, then such should be clearly disclosed in the Notes to the Financial  
24                   Statements.

## 25     **Periodicity**

26                   48. Activities of accounting and financial reporting of a reporting  
27                   entity need to be divided into reporting periods thereby the performances of  
28                   the entity can be measured and the positions of resources owned can be  
29                   determined. The main period used is annual. However, monthly, quarterly,  
30                   and semi-annual periods are also suggested.





## 1      **Consistency**

2                    49. The same accounting treatment is applied in similar events  
3 from period to period by a reporting entity (principle of internal consistency).  
4 This does not mean that no changes are allowed from one accounting  
5 method to another. The accounting method can be changed provided that the  
6 new method to be applied is able to provide better information compared to  
7 the previous method. The impact of the changes of application of this method  
8 is disclosed in the Notes to the Financial Statements.

## 9      **Full Disclosure**

10                   50. The financial statements present complete information required  
11 by users. The information required by users of financial statements can be  
12 placed on the face of the financial statements and/or in the Notes to the  
13 Financial Statements.

## 14     **Fair Presentation**

15                   51. The financial statements fairly present the Statement of Budget  
16 Realization, the Statement of Financial Position, the Statement of Cash Flow,  
17 and the Notes to the Financial Statements.

18                   52. Sound judgments of the preparers of the financial statements  
19 are necessary when facing uncertainties of events or circumstances. Such  
20 uncertainties are recognized by disclosing the substance and its degree by  
21 using sound judgments in preparing financial statements. Sound judgments  
22 contain prudent elements at the time of determining estimates during  
23 uncertain conditions thereby assets or revenues are not stated too high and  
24 liabilities are not stated too low. Nevertheless, the use of sound judgments  
25 does not allow, for example, the establishment of hidden reserves,  
26 intentionally understate assets or revenue, or intentionally overstate liabilities  
27 or expenditures, results in un-neutral and unreliable financial statements.

## 28     **CONSTRAINTS OF RELEVANT AND RELIABLE** 29 **INFORMATION**

30                   53. A constraint of accounting and financial statements information  
31 is each condition where it is impossible to establish an ideal condition in  
32 performing relevant and reliable information on accounting and financial  
33 statements due to limitations or due to practical reasons. Three factors that  
34 cause constraints in information on accounting and financial statements of the  
35 government are:



- 1 (a) Materiality;
- 2 (b) Cost and benefit;
- 3 (c) Balance among qualitative characteristics.

## 4 **Materiality**

5 54. Although it would be ideal to include all information,  
6 government financial statements only have to present information that meets  
7 the criteria of materiality. Information is considered as material when failing to  
8 record or a mistake in recording such information can influence the users  
9 economic decisions that are based on the financial statements.

## 10 **Cost and Benefit**

11 55. The benefit generated from information should exceed the cost  
12 of preparing it. As such, government financial statements should not present  
13 information with benefit that is less than the cost of its preparation.  
14 Nevertheless, the evaluation of cost and benefit requires substantial  
15 judgments. Such cost should also not have to be borne by the users of  
16 information that receive such benefit. Benefit can also be enjoyed by users  
17 other than those the information is directed to, for example the supply of  
18 further information to creditors could probably reduce the cost borne by a  
19 certain reporting entity.

## 20 **Balance among Qualitative Characteristics**

21 56. Balance among qualitative characteristics is necessary to  
22 reach a correct balance among various normative goals that are expected to  
23 be achieved by government financial statements. Relative interests among  
24 characteristics in various cases differ, mainly between relevance and  
25 reliability. The determining levels of interests between such two qualitative  
26 characteristics are matters of professional judgments.

## 27 **ELEMENTS IN THE FINANCIAL STATEMENTS**

### 28 **Statement of Budget Realization**

29 57. The Statement of Budget Realization presents a summary on  
30 sources, allocations, and use of economic resources that are managed by the



1 central/local government, that illustrate a comparison between the budget and  
2 its realization in one reporting period.

3 58. Elements that are covered directly by the Statement of Budget  
4 Realization consist of revenues, expenditures, transfers, and financing. Each  
5 element is respectively defined as follows:

- 6 (a) Revenues (cash basis) constitute revenues by the Central/Local  
7 Government General Treasurer (BUN/BUD) or by other government  
8 entities that add to the current equity during the related budget year that  
9 are the right of the government and do not need to be repaid by the  
10 government.
- 11 (b) Revenues (accrual basis) constitute the rights of the government which  
12 are recognized as an addition to the net asset value.
- 13 (c) Expenditures (cash basis) constitute all expenditures by the  
14 Central/Local Government General Treasurer that reduce the current  
15 equity in the related budget year for which the government will not  
16 receive any repayment.
- 17 (d) Expenditures (accrual basis) constitute liabilities of the government that  
18 are recognized as a reduction in net asset value.
- 19 (e) Transfers are receipts/disbursements of money from one reporting  
20 entity to another reporting entity, including balancing funds (*dana*  
21 *perimbangan*) and revenue-sharing funds (*dana bagi hasil*).
- 22 (f) Financing constitutes each receipt that needs to be repaid and/or  
23 disbursements that will be re-received, whether during the related  
24 budget year or the subsequent budget years, which in the budgeting of  
25 the government is mainly intended to cover deficit or make use of  
26 surplus of the budget.
- 27 (g) Receipt of financing among others can originate from loans and  
28 proceeds of divestment. Disbursements of financing among others are  
29 used for repaying the principals of loans, providing loans to other  
30 entities, and placing the government investment.

## 31 **Statement of Financial Position**

32 59. The Statement of Financial Position shows the financial  
33 position of a reporting entity on its assets, liabilities, and equity on a certain  
34 date.

35 60. Elements contained in the Statement of Financial Position  
36 consist of assets, liabilities, and equity. Each element is defined as follows:

- 37 (a) Assets are economic resources controlled and/or owned by the  
38 government as a result of events in the past and from which economic  
39 and/or social benefits in the future are expected to be gained, both by  
40 the government as well as by the public, and can be measured in



- 1 monetary unit, including the non-financial resources which are needed  
2 to provide services for the general public and resources that are  
3 maintained due to historical and cultural reasons.
- 4 (b) Liabilities are debts that arise from events in the past, the settlement of  
5 which causes an outgoing flow of government economic resources.
- 6 (c) Equity is net government assets that constitute the difference between  
7 government assets and liabilities.

## 8 **Assets**

9 61. The future economic benefits established in assets are the  
10 potential of such assets in providing contribution whether directly or indirectly,  
11 for operational activities of the government, in the form of flow of revenues or  
12 efficiency in expenditures for the government.

13 62. Assets are classified into current and non-current assets. An  
14 asset is classified as a current asset if it is expected to immediately be  
15 realized or owned for use or sale within 12 (twelve) months from the date of  
16 reporting. Asset that cannot be included into such criteria is classified as non-  
17 current asset.

18 63. Current assets cover cash and cash equivalent, short-term  
19 investments, receivables, and inventories.

20 64. Non-current assets cover assets of long-term nature, and  
21 intangible assets which are used whether directly or indirectly for government  
22 activities or used for the general public. Non-current assets are classified as  
23 long-term investments, fixed assets, reserved funds, and other assets.

24 65. Long-term investments are investments placed with the  
25 purpose to achieve economic and social benefits within a period of time  
26 exceeding one accounting period. Long-term investments cover non-  
27 permanent and permanent investments. Non-permanent investments among  
28 others are investments in Government Bond (Surat Utang Negara), capital  
29 investment in development projects, and other non-permanent investments.  
30 Permanent investments among others are government capital investment and  
31 other permanent investments.

32 66. Fixed assets include land, equipment and machinery, buildings  
33 and properties, roads, irrigations, transmission networks, other fixed assets,  
34 and construction in progress.

35 67. Other non-current assets are classified as other assets.  
36 Included in other assets are intangible assets and partnership assets.



## 1        **Liabilities**

2                68. The essential characteristics of liabilities are that the  
3 government has a current obligation the settlement of which results in the  
4 sacrifice of economic resources in the future.

5                69. Liabilities often arise due to the consequences of  
6 implementation of duties or obligation to act in the past. In the context of the  
7 government, liabilities occur among others due to the use of loan resources  
8 from the public, financial institutions, other government entities, or  
9 international institutions. Government liabilities also occur because of the  
10 contract of employees working for the government or of other service  
11 providers.

12                70. Each liability can be enforced according to the law as a  
13 consequence of binding contracts or statutory regulations.

14                71. Liabilities are classified into short-term and long-term liabilities.  
15 Short-term liabilities are groups of liabilities settled within a period of less than  
16 twelve months after the date of reporting. Long-term liabilities are groups of  
17 liabilities settled within a period exceeding 12 (twelve) months from the date  
18 of reporting.

## 19        **Equity**

20                72. Equity can be classified into the followings:

- 21        (a) Current Equity which is the difference between current assets and short-  
22        term liabilities.
- 23        (b) Investment Equity reflects the assets of the government in non-current  
24        assets other than reserved funds, minus long-term liabilities.
- 25        (c) Reserved Equity reflects assets of the government reserved for  
26        predetermined purposes in accordance with the statutory regulations.

## 27        **The Statement of Cash Flow**

28                73. The Statement of Cash Flow presents cash information on  
29 operational activities, non-financial asset investment, financing, and budget  
30 transactions that show the initial balance, receipts, payments, and end  
31 balance of the central/local government cash during a certain period.

32                74. The elements contained in the Statement of Cash Flow consist  
33 of cash receipts and payments, which are respectively defined as follow:

- 34        (a) Cash receipts are all incoming cash flows to the Central/Local  
35        Government General Treasurer.
- 36        (b) Cash payments are all outgoing cash flows from the Central/Local  
37        Government General Treasurer.



## 1      **The Notes to the Financial Statements**

2                    75. The Notes to the Financial Statements cover narrative  
3 explanations or details of figures contained in the Statement of Budget  
4 Realization, the Statement of Financial Position, and the Statement of Cash  
5 Flow. The Notes to the Financial Statements also contain information  
6 concerning accounting policies used by the reporting entity and other  
7 information that is mandated and encouraged to be disclosed in the  
8 Government Accounting Standards and disclosures that are necessary to  
9 produce fair presentation of the financial statements. The Notes to the  
10 Financial Statements disclose the followings:

- 11            (a) The policy on fiscal/finances, macroeconomics, the achievement of  
12 target of the Revenue and Expenditure Budget for Central Government  
13 (APBN)/Revenue and the Expenditure Budget for Local Government  
14 (APBD), along with the obstacles and barriers encountered in achieving  
15 the target;
- 16            (b) The summary of the achievement of the financial performance during  
17 the reporting year;
- 18            (c) The basis in preparing the financial statements and the chosen  
19 accounting policies to be applied to the transactions and other important  
20 events;
- 21            (d) The disclosure of information as prescribed by the Government  
22 Accounting Standards which has not yet been presented on the face of  
23 the financial statements;
- 24            (e) The disclosure of information on assets and liabilities accounts in  
25 connection with the application of accrual basis on revenues and  
26 expenditures and the reconciliation thereof with the application of cash  
27 basis;
- 28            (f) The additional information required for the fair presentation, which is not  
29 presented on the face of the financial statements.

## 30      **The Statement of Financial Performance and the** 31 **Statement of Changes in Equity**

32                    76. The Statement of Financial Performance is a report on the  
33 realization of revenue and expenditure prepared based on accrual basis. In  
34 such report, it is necessary to present information concerning operational  
35 revenues, expenditures based on functional and economic classifications,  
36 and surplus or deficit.

37                    77. Another suggested report is the Statement of Changes in  
38 Equity, which shows an increase or reduction of equity during the reporting  
39 year compared to the previous year.





## 1      **RECOGNITION      OF      THE      ELEMENTS      OF** 2      **FINANCIAL STATEMENTS**

3                    78. Recognition in accounting is the process of determining the  
4 fulfillment of the recording criteria of an event or circumstance in the  
5 accounting records, and thereby it completes the elements of assets,  
6 liabilities, equity, revenues, expenditures, and financing, as will be contained  
7 in the financial statements of the reporting entity. Recognition is represented  
8 in the recording of monetary amounts in the accounts of the financial  
9 statements which are affected by related events or circumstances.

10                   79. The minimum criteria, necessary to be fulfilled by an event or  
11 circumstance, to be recognized are namely:

- 12                   (a) The possibility that the economic benefit related to the event or  
13                          circumstance will flow out or into the respective reporting entity;  
14                   (b) The event or circumstance has values or costs that can be reliably  
15                          measured or estimated.

16                   80. In determining whether an event/circumstance satisfies the  
17 criteria of recognition, judgments should be made on its materiality.

## 18      **The High Probability of the Occurrence of** 19      **Future Economic Benefits**

20                   81. In the criteria of revenues recognition, the concept of high  
21 probability of the occurrence of future economic benefits is used in  
22 understanding with a high degree of certainty that future economic benefits  
23 which are related to such accounts or event/circumstance will flow from or  
24 into the reporting entity. This concept is necessary in facing uncertainties of  
25 the environment of the government operations. The study on the degree of  
26 certainty that is built in the flow of future economic benefits is based on the  
27 evidence obtained at the time of the preparation of the financial statements.

## 28      **Reliability of Measurement**

29                   82. The criteria of recognition in general are based on the  
30 monetary values of the events or circumstances which can be reliably  
31 measured. However there are times when recognition is based on fair  
32 estimation. If the measurement either based on costs or on fair estimation is  
33 not possible to be done, then the recognition of such transactions should be  
34 adequately disclosed in the Notes to the Financial Statements.



1               83. The postponement of recognition on accounts or events can  
2 take place if the criteria of recognition is only fulfilled after the event has  
3 occurred or the event/circumstance has not occurred in the future.

## 4               **Recognition of Assets**

5               84. Assets are recognized at the time the potential for future  
6 economic benefits is acquired by the government and have a value or cost  
7 that can be reliably measured.

8               85. Assets in the form of cash acquired by the government among  
9 others are originated from taxes, income duties, excises, non-tax revenues,  
10 retributions, collections as a result of government assets utilization, transfers,  
11 and other deposits, as well as income from financing such as loans. The  
12 process of collection of each element of such income varies and involves  
13 many parties or institutions. As such, the point of recognition of cash receipt  
14 by the government to obtain accounting recognition requires more detailed  
15 provision, including the provision concerning time limitations as of the time the  
16 money is received until its deposit into the accounts for Central/Local  
17 Government Cash. Assets are not recognized if expenditures have occurred  
18 and the economic benefits are viewed as impossible to be obtained by the  
19 government after the current accounting period.

## 20              **Recognition of Liabilities**

21              86. Liabilities are recognized if there is a high degree of possibility  
22 that the expending of economic resources will be carried out or has been  
23 carried out to settle the current obligation, and changes on such obligation  
24 have a settlement value that can be reliably measured.

25              87. Liabilities are recognized at the time the borrowed funds are  
26 received or at the time the obligation occurs.

## 27              **Recognition of Revenues**

28              88. Cash basis revenues are recognized at the time of receipt at  
29 the Accounts for Central/Local Government Cash or when received by the  
30 reporting entity. Accrual basis revenues are recognized at the time of  
31 occurrence of the right on such revenues.

## 32              **Recognition of Expenditures**

33              89. Cash basis expenditures are recognized at the time of  
34 disbursement from the Accounts for Central/Local Government Cash or when  
35 disbursed by the reporting entity. Specifically for expenditures from the





1        disbursing treasurer the recognition will occur at the time when such  
2        expenditures are accounted and have been approved by the unit that has the  
3        treasury function. Accrual basis expenditures are recognized at the time of  
4        the occurrence of obligation or at the time when the benefit is acquired.

## 5        **MEASUREMENT OF ELEMENTS OF FINANCIAL** 6        **STATEMENTS**

7                90. Measurement constitutes the process of determination of  
8        monetary cost to recognize and record each account into the financial  
9        statements. Measurement of accounts in the financial statements uses  
10       historical cost. Assets are recorded in the paid amount of cash or its  
11       equivalent, or in the fair amount given in exchange for those assets. Liabilities  
12       are recorded in its nominal amount.

13               91. Measurement of financial statement accounts uses the Rupiah.  
14       Transactions using foreign currency should be converted and then presented  
15       in Rupiah.

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.**