Study on

ACCOUNTING FOR LIABILITIES AND RELATED COSTS

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ACRONYMS

BAKUN	State Financial Accounting Agency (Badan Akuntansi Keuangan Negara)
BPN	State Land Office (Badan Pertanahan Nasional)
DDLN	Directorate of Foreign Fund (Direktorat Dana Luar Negeri)
DPPP	Subsidiary Loan Management (Direktorat Pengelolaan Penerusan Pinjaman)
FASAB	Federal Accounting Standards Advisory Board
Guide	External Debt Statistics: Guide for Compilers and Users, Final Draft, by IMF and several foreign debt organizations.
IAI	Indonesian Institute of Accountants
IASB	International Accounting Standard Board
IPSAS	International Public Sector Accounting Standard
PMON	State Bond Management Center (Pusat Manajemen Obligasi Negara)
MOF	Ministry of Finance
PSAK	Statement of Financial Accounting Standard (Pernyataan Standar Akuntansi Keuangan)
SFFAS	Statement of Federal Financial Accounting Standard of USA Federal Government
USA	United States of America

STUDY ON

ACCOUNTING FOR LIABILITIES AND RELATED COSTS

INTRODUCTION

This report presents a study of the accounting standards for liabilities and related costs developed by several government accounting standard bodies across several nations. This also summarizes financial reporting practices applied by several countries in the term of presenting liabilities and related costs on the financial statements.

This study is hoped to assist the Committee of Government Accounting Standard Development, hereinafter referred to as The Committee, in preparing government accounting standard for liabilities to accompany with the previous developed ones, which are:

(1) Conceptual Framework for Government Accounting hereinafter referred to as Draft CF.

(2) Statement No. 1 – Presentation of Financial Statements, hereinafter referred to as Draft No. 1;

(3) Statement No. 2 – Budget Realization Report, hereinafter referred to as Draft No. 2;

(4) Statement No. 3 – Cash Flow Statements, hereinafter referred to as Draft No. 3;

The general conceptual definition of "liability" is broad covering all government obligations that have to be redeemed for the current and the future years. These include current liability, such as account payable, interest payable, and other current liabilities; long-term liability, such as bond and loan to banks; and contingent liability as well.

To put more focus to the study, the term Liability at this study is limited to government borrowings due to foreign and domestic debts and it does not cover current liability and contingent liability. However, it includes the cost of liabilities resulted by debts.

During conducting the study, we had a thorough overview of the systems concerning debt items on the debt management including foreign loan managed by Directorate of Foreign Fund (DDLN/Direktorat Dana Luar Negeri) of DG Budget and by Directorate of Subsidiary Loan Management (DPPP/Direktorat Pengelolaan Penerusan Pinjaman), as well as domestic debts managed by State Bond Management Center (PMON/Pusat Manajemen Obligasi Negara). We proceeded our study to identify the need of government accounting standard for liabilities and to suggest the topics that should be asserted on the proposed standard.

Although this study is performed in a short period of time to cover all government liabilities in Indonesia, it is hoped that this could be a useful reference tool for explaining the liabilities and related costs in Indonesia and thus improves the quality of proposed accounting standard.

LIABILITY

To provide public services, usually a government has to finance its activities by borrowing money from financial institutions. This transaction would create obligations for government to repay the principal and other expenses, such as interest and commitment fees. Other transactions that might create obligation for government are the receipt of goods and services from supplier and the services provided by employees. The unpaid invoices and salary at the financial report date are the amount of obligations that government has to meet.

The condition above is also valid for Government of Indonesia (GOI). To develop the nation, GOI finances its project by using the loan from several financial institutions, for instance International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB). At the present time, GOI has utilized not only loan instrument but also other financial instruments, such as government bills (TBills) and bonds (TBonds).

The use of liability as a finance source might create costs, especially for government borrowings. The costs include interest, commitment fee, management fee, legal fee, and others related to the loan. These kinds of costs are commonly stated in loan agreements.

The following section would describe the liability concept and its related costs. For the purposes of the study, the liability is defined as the government debt or government borrowings. For that reason, the use of these terminologies is interchangeable.

DEFINITION OF LIABILITY

Draft No. 1 adopts IPSAS 1 as well as PSAK 1 that define liabilities as present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

The above standards have the same opinion that past event is a basis for creating obligation and do not explicitly state the past transaction as a cause of liability recognition. Other standards, AAS 34 and SFFAS 5 clearly state past transactions together with past events as a trigger for liability recognition.

Moreover, SFFAS 5 guides the differences between transaction and event. A transaction is defined as the transfer of something of value. Transactions could be exchange transactions or non-exchange transactions. An event is defined as a happening that has financial consequence to government. These events are classified into two categories: (1) government-related events or (2) government-acknowledged events.

Detailed explanation regarding transaction and event will be presented on the next section.

PRINCIPLE FOR RECOGNITION OF A LIABILITY

The Draft Conceptual Framework guides the essential characteristic of Liability if the government has the present obligation and the settlement of which will sacrifice economic resources in the future[1].

Essential features of liability worded in this definition are:

1. A present duty or responsibility to one or more entities that entails settlement by use of economic resource at a specified or determinable date
2. Transaction or other event obligating the entity has already happened.

Draft No. 1 prescribes the recognition of liability in paragraph 62. Liabilities are recognized if it is probable that the outflow of the potential economic resources will be performed or have been performed to settle the existing obligations, and the change of liabilities has settlement value, which can be measured reliably. Moreover, on subsequent paragraph, Draft No. 1 prescribes the recognition of liability when cash has been received or when the obligation is raised.

Standard for financial reporting presentation usually only guides the definition and classification of main items in financial statements. It is not common practice for general presentation standard to prescribe beyond the definition and classification of liability as shown in IPSAS 1 and PSAK 1. The recognition and valuation principles of liability are usually prescribed at the standard related to liability, not in general presentation standard.

A good example of recognition of liability is shown in Statement of Federal Financial Accounting Standard No. 5: Accounting for Liabilities of Federal Government. This standard has elaborated the principle of liability recognition by identifying the differences between transaction and event in liability recognition. This standard states that financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from,

(1) exchange transactions,

(2) nonexchange transactions.

(3) government-related events,

(4) government-acknowledged events,

An **exchange transaction** is defined as two-way flow of resources when each party to the transaction sacrifices value and receives value in return. In this circumstance, a liability is recognized if one party receives goods or services in return and promises to provide money or other resources in the future. A good example for an exchange transaction is when a government employee performs services in

[1] The Committee of Central and Local Government Accounting Standard, Draft of Conceptual Framework, par 68

exchange for compensation, including current salary and future retirement benefits.

A **non-exchange transaction** is defined as one-way flow of resources or promises when one party to a transaction receives value without directly giving or promising value in return. In this circumstance, a liability should be recognized for any unpaid amounts due at the reporting date. The examples of this transaction are grant and certain entitlement programs. When the central government creates an entitlement program or gives a grant to local governments, the provision of the payments is determined by law, state budget law for Indonesian's case, rather than through an exchange transaction.

Government-related event is defined as nontransaction-based events between the central government and its environment. The event may be uncontrollable, such as a government entity accidentally causing damage to private property. When this event happens, it will create a liability. This would enhance the liability recognition if existing law and policy made it probable that the government has to pay for the damages and the amount of the payment could be estimated reliably. In general, a liability is recognized in regard to government-related events on the same basis as those that arise in exchange transactions.

Government-acknowledged event is defined as nontransaction-based events that have financial consequence to the government because it decides to respond to the event. As a public service provider, government is usually asked to fulfill general needs of the public even though it has no prior legal obligation. For example of government-acknowledged event is when damage caused by non-government entity and natural disaster may ultimately become the responsibility of government.

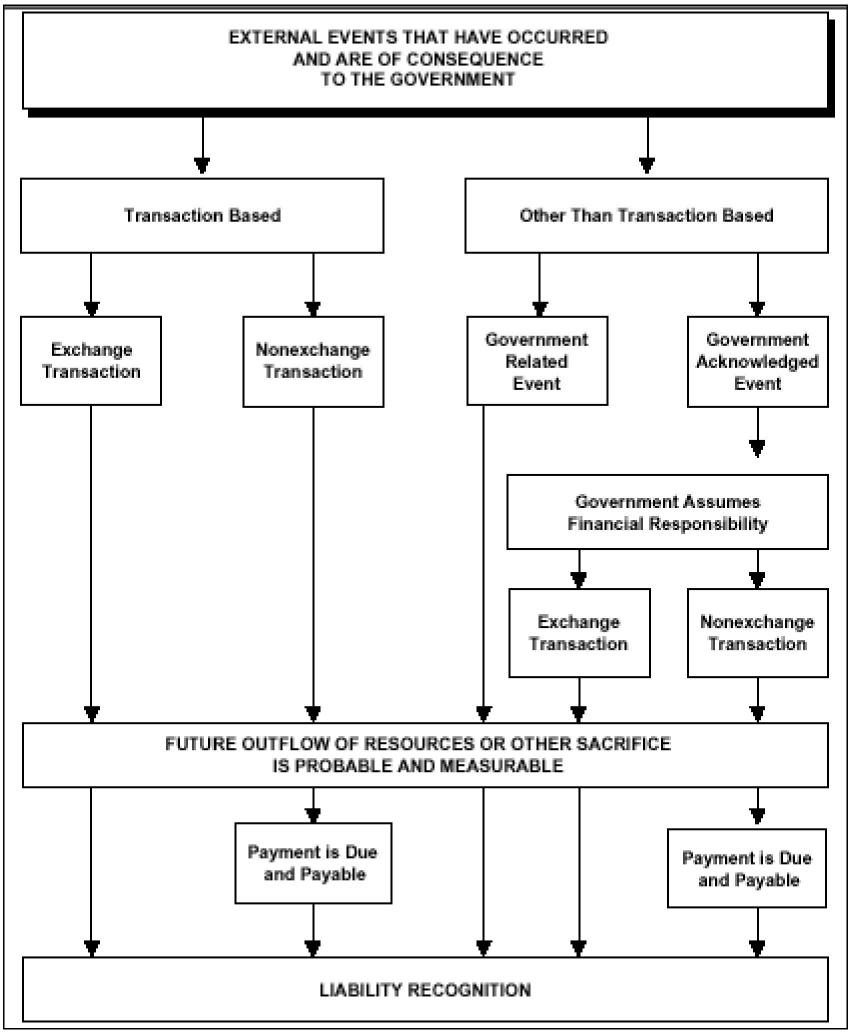
However, "liability" criteria are not met until the government formally acknowledges financial consequences for the cost from the event and an exchange or nonexchange transaction has occurred. The government entity should recognize the liability and expense when both of the liability criteria have been met (1) there are appropriate regulations to authorize the government and (2) an exchange occurs (e.g., when a contractor provides service and repairs) or nonexchange amounts are unpaid at the reporting date (e.g., payments to disaster victims).

A good example for the liability recognition of government-acknowledged events is illustrated in SFFAS 5, *"a tornado damages a U.S. town and the Congress appropriates funds in response to the disaster. This event is of financial consequence to the federal government because the federal government chooses to provide disaster relief to the town. Transactions resulting from this appropriation, including disaster loans, outright grants to individuals, and work performed by contractors paid by the federal entities, are recognized as exchange or nonexchange transactions. In the case of exchange transactions, amounts payable for goods and services provided to federal entities are recognized when the goods are delivered or the work is done.[2]"*

[2] Statement of Federal Financial Accounting Standard of US Federal Government (SFFAS) 5, par. 32.

These transactions and events should be in line with the existing law and applicable policy and the unpaid amounts due as of the reporting date should be reported. To depict this concept SFFAS 5 provides the following chart:

Chart 1 – Liability Recognition Summary[3]



VALUATION OF LIABILITY

Draft No 1 recommends using nominal value as a basis of recording. Liabilities in foreign currency are translated to Indonesian currency (rupiah) using the mid rate (kurs tengah) of Central Bank on the reporting date. However, it is not stated if it is valid for transaction records as stated in PSAK 10 – "Transactions in Foreign Currencies". This standard states that transactions in foreign currencies are recorded using spot rate at the transaction date. The differences between the rate at date of the initial recognition and the rate at date of financial statement are credited or debited to the current period as "exchange differences".

[3] Extracted from SFFAS 5

Including foreign currency treatment in defining liabilities is not common in practice. Usually, transactions in foreign currency are prescribed on separated accounting standards.

On the contrary, SFFAS 5 does not specifically define the valuation method for liability but it recognizes different attributes to measure liability specified by various accounting standards, such as fair market value, current cost, present value, expected value, settlement value, and historical cost. It only prescribes that an item has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable[4].

On November 2001, for compilers and users, International Monetary Fund (IMF) and other international organizations[5] provided a guidance for debt valuation by publishing "External Debt Statistics: Guide for Compilers and Users", hereinafter referred to as The Guide. It provides a comprehensive conceptual framework, derived from the System of National Accounts, 1993 (1993 SNA) and the fifth edition of the IMF's Balance of Payments Manual (BPM5), for the measurement of gross external debt of the public and private sectors.

Generally, the Guide divides government debt instruments into two groups, namely nontraded debts and traded debt instruments. For nontraded instruments, the Guide recommends to use a nominal value at the reference date. While for traded instruments it is recommended to measure government debt using market value.

According to this Guide,

The nominal value of a debt instrument reflects the value of the debt at creation, and any subsequent economic flows, such as transactions (e.g., repayment of principal), valuation changes (including exchange rate and other valuation changes other than market price changes), and any other changes. ……..

The market value of a traded debt instrument should be determined by the market price for that instrument prevailing on the reference date to which the position relates. The ideal source of a market price for a traded debt instrument is an organized or other financial market in which the instrument is traded in considerable volume and the market price is listed at regular intervals. In the absence of such a source, market value can be estimated by discounting future payment(s) at an appropriate market rate of interest. ….. in determining market value, these interest costs need to be included.[6]

CLASSIFICATION OF LIABILITY

Both standards, Draft No. 1 and IPSAS 1, also categorize liability into two main classifications, namely current and long term liability. A liability will be classified as a current liability if it is expected to be settled within twelve months of the reporting date. All other liabilities will be classified as non-current liabilities. Unlike Draft 1, in addition to the twelve month criterion, PSAK 1 and IPSAS also use another

[4] SFFAS 5, par 34.

[5] Other organizations are Bank for International Settlements, The Commonwealth Secretariat, Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development, The Paris Club Secretariat, The United Nations Conference on Trade and Development, World Bank.

[6] IMF, et. al, External Debt Statistics: Guide for Compilers and Users, Final Draft, 2001, par 48 and 50.

criteria for current liability that it *is expected to be settled in the normal course of the entity's operating cycle*[7]. This will cover government entities having operating cycle more than twelve months.

There is an exception for applying the above principle as states at IPSAS 1 and Draft No. 1. These two standards treat *to continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the reporting date if:*

(a) the original term was for a period of more than twelve months;

(b) the entity intends to refinance the obligation on a long-term basis; and

(c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are approved[8]*.*

The amount of liability due to the above reasons should be disclosed in the notes to the statement of financial position.

The Guide also gives structure of debt presentation. As shown in table 1 below, the Guide put arrears information on the face of financial statement. The discussion regarding arrears will be presented on the other issues related to liabilities of this paper.

Table 1 - Liability Classification of Guide

General Government
Short-term
Money market instruments
Loans
Trade credits
Other debt liabilities*
Arrears
Other
Long-term
Bonds and notes
Loans
Trade credits
Other debt liabilities

Interesting classification is shown by General Government Finance Statistics Manual (GFS). Like assets, liabilities in this manual may be classified by type of financial instrument and residence[9].

Table 2 - Liability Classification of GFS

63	**Liabilities**
631	**Domestic**
6312	Currency and deposits
6313	Securities other than shares
6314	Loans
6315	Shares and other equity (public corporations only)
6316	Insurance technical reserves [GFS]
6317	Financial derivatives
6318	Other accounts payable
632	**Foreign**
6322	Currency and deposits
6323	Securities other than shares
6324	Loans
6325	Shares and other equity (public corporations only)
6326	Insurance technical reserves [GFS]
6327	Financial derivatives
6328	Other accounts payable

7 International Federation of Accountant-PSC, International Public Sector Accounting Standard No. 1, Presentation of Financial Statement, par. 83 (a).

8 Ibid, par 86.

9 International Monetary Fund, Government Finance Statistics Manual, 2001, par 9.23

GOVERNMENT DEBT SECURITY

The most common debt transactions of general government units are traditional loan involving interest expense and the repayment of principal. Normally, the portion of a periodic payment is equal to the amount of interest that has accrued plus principal, which are due for payment.

At the present time, in addition to traditional loan government may undertake other various financial instruments, such as government bills (Tbills) and bonds (Tbonds). Unlike traditional loan, Tbills and Tbonds are marketable securities, which are traded in financial market for a certain period. Thus, one of the most important activities of government today is managing the debt securities of government which tend to be dominant as one of finance sources.

For this topic, SFFAS 5 uses the term of debt securities to cover government securities.

TYPES OF GOVERNMENT DEBT SECURITY

Government debt securities may be divided into two broad groups, namely marketable securities and nonmarketable securities. Marketable securities may be traded any number of times before they reach maturity while nonmarketable securities must be held by the original purchaser until they mature or are redeemed by the government[10].

The government marketable debt is usually composed of three types of securities, which are Treasury Bills, Notes, and Bonds. The difference between them is on the period of maturity. Bill is usually matured in one year or less. In contrast, Notes range in original maturity from two (2) years to ten (10) years, while Bond may have a maturity at issue of more than ten (10) years.

The government nonmarketable debt usually consists mainly of government securities issued by the state treasury to various government agencies and trust funds. This type of government debt is intended to reduce the government's borrowing activity in the open market.

ACCOUNTING FOR DEBT SECURITIES

For accounting purposes, SFFAS 5 divides government debt securities into two major categories: fixed value securities and variable value securities. Fixed value securities are defined as government securities that have a known maturity or redemption value at the time of issue while variable value securities are defined the government securities that have unknown redemption or maturity values at the time of issue.

[10] Peter S. Rose, Money and Capital market, Irwin Inc, Homewood, Il, 1989, p. 653.

VALUATION

Fixed Value Securities

According to SFFAS 5, fixed variable securities should be valued at their original face (par) value net of any unamortized discount or premium. Securities sold at face (par), no discount or no premium included, should be valued at face (par). Securities sold at a discount or premium will increase or decrease in value between sale and maturity. Amortization method of the discount or premium may apply the straight-line method or the interest method.

Variable Value Securities

SFFAS 5 refers the basis of regulation or specific terms in the offering as a method to value these securities. It means that these securities may vary depending on the regulation and the term of offering. These securities should be originally valued and periodically revalued at their current value, on the basis of the regulations or offering language.

Figure 1 - An Example of US Federal Securities

FEDERAL DEBT INSTRUMENTS

Debt Category	Subcategory	Term	Redeemable	Accounting Method
Marketable Debt	Treasury Bills	Up to 1 yr	At maturity	Liability at face value net of unamortized discount Straight line method of amortization of discount
	Treasury Notes	2 to 10 yrs	At maturity	Liability at face value net of unamortized discount and premium Straight line method of amortization of discount and premium
	Treasury Bonds	10 to 30 yrs	At maturity	Liability at face value net of unamortized discount and premium Straight line method of amortization of discount and premium
Non-Marketable Debt	Government Account Series:			
	Par Values	Various	On demand	Par value, no discount or premium to be amortized
	Market Based	Various	On demand	Liability at face value net of unamortized discount and premium Interest method of amortization of discount and premium
	U.S. Savings Bonds:			
	E/EE bonds	10 to 40 yrs	On demand after 6 months	Current value
	H/HH bonds	10 to 30 yrs	On demand after 6 months	Par value, no discount or premium to be amortized
	State & Local Government Securities	Various	On demand	Par value, no discount or premium to be amortized
	Domestic Series Zero-Coupon bonds	20 to 40 yrs	At maturity	Liability at face value net of unamortized discount Interest method of amortization of discount
	Foreign Series			
	Treasury bills	Up to 1 yr	On demand	Liability at face value net of unamortized discount Straight line method of amortization of discount
	Zero-Coupon bonds	20 to 30 yrs	At maturity (1 bond) On demand (2 bonds)	Liability at face value net of unamortized discount Interest method of amortization of discount Current value.

RETIREMENT PRIOR TO MATURIY

If government securities are retired prior to the maturity date due to a call feature of the security or redemption by the holder, the difference between the reacquisition price and the net carrying value of the extinguished debt should be recognized currently in the period of the extinguishments as losses or gains.

LIABILITY RELATED COSTS

The related costs of the government debt are interest and other expenses incurred by an entity in connection with the lending of funds. It may include:

(a) the interest and other expenses incurred during the accounting period, from bank overdrafts and short-term and long-term borrowings;

(b) the amortization amounts of discount or premium, based on the same amortization method used to account for the related debt liability, for fixed value securities, and

(c) the amount of change in the current value for the accounting period for variable value securities

(d) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

TREATMENT OF BORROWING COSTS

IPSAS 5 generally requires the immediate expensing of borrowing costs when it occurs. However, this Standard permits alternative treatment to capitalize borrowing costs if these costs are directly attributable to the acquisition, construction or production of a qualifying asset.

Qualifying assets at the above paragraph are defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. It is not considered to be qualifying assets if they are ready for intended use or sale when acquired. Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories.

SFFAS 5 does not state interest capitalization. However, SFFAS 6 par 26 regarding Asset Recognition includes the material amount of interest cost as a part of Property, Plant, and Equipment (PPE) costs if the interests are directly related to the acquisition or construction of PPE.

ONE DEBT FOR MORE THAN ONE QUALIFYING ASSET

In the case of more than one qualifying assets funded by one government debt, AAS 34 guides that the total of borrowing costs capitalized during a reporting period must not exceed the total of borrowing costs incurred during that reporting period.

Funds Borrowed Generally

If the funds are borrowed generally, the borrowing costs to be capitalized to qualifying assets must be calculated using the weighted average accumulated expenditures relating to qualifying assets during the reporting period.

Funds Borrowed Specifically for a Qualifying Asset

If funds are borrowed specifically for acquiring, constructing or producing a certain qualifying asset, the actual borrowing costs incurred on that borrowing during the reporting period must be capitalized to that asset.

OTHER ISSUES RELATED TO LIABILITY

ACCRUED INTERESTS

Government debt recording systems in many countries have not recorded interest costs that have accrued and not yet payable. This still remains the same to continue to exclude such interest costs from the government debt position. One reason for this practice is that it needs time to modify a significant change to their present compilation system[11].

For this issue, the Guide recommends including interest costs that have accrued and are not yet payable as part of the value of the related debt instruments. This is consistent with the accrual accounting basis, to recognize liabilities as it occurs.

It also applies to bond securities (including deep discounted and zero-coupon bonds), bills and similar short-term securities which are issued at a discount, or at a premium. The difference between the issue price and its face or redemption value at maturity should be treated as interest over the life of the bond.

ARREARS

Arrears are defined as amount overdue when the government fails to pay principal and interest as scheduled. Some types of government debt may mature at a scheduled date or series of dates when the debtor is obligated to make certain payments to the creditor.

For policy and solvency analyses, information on debt in arrears will enable users to get more understanding. For that reason, GFS recommends to expand liability information in order to show how much of each category is in arrears.

In the accounting practice, the amount of arrears is rarely put on the face of financial statement. However, the users of government financial statement may need the information of arrears to give them more understanding about the financial position of government.

To provide such information, the government accounting standards may require the reporting entity to disclose arrears information on the notes to financial statement. This practice is applied in Australia. Department of Treasury of Australian Government in its accounting policy manual requires the reporting entity to provide aging of

[11] See Guide, par. 42.

creditors on the notes to financial statement as apart of other disclosure relating to liabilities[12].

DEBT REFINANCING AND RESCHEDULING

Government units may come to the arrangement with creditor to alter the agreement terms for servicing an existing debt. The amendment may include extending repayment schedules, extending grace periods, or rescheduling debt-service payments that are due and / or in arrears. This process is known as debt reorganization.

Debt reorganization may be conducted through[13]:

(1) the replacement of an existing debt instrument, including arrears, with a new one, known as refinancing; or

(2) a change of the terms and conditions of the existing contracts, including principal payments that are not yet due, and arrears, known as rescheduling.

In many instances, the above two methods may reduce the amount of debt compared to the previous one.

In accounting perspective, the debt reorganization basically involves two types of concession: (1) settlement of the debt at less than it book value and (2) continuation of the debt but with modified terms.

For the first condition, PSAK 54 treats that the amount of the debt reduction may create gain on settlement of debt. If the debt is settled by transfer of non cash assets, the debtor should revalue the assets to their current fair market value, and recognizing any related gain or loss as an ordinary one[14].

Modified terms of debt may include any combination of the following:

(1) Reduction in the stated rate of interest.

(2) Extension of the maturity date.

(3) Reduction of the face (maturity) value.

(4) Reduction in the interest accrued to date.

For this condition PSAK 54 governs that the debtors should record the effect of restructuring process prospectively. If the current book value is less than the total outflows, no adjustment is made to the liability account at the time of rescheduling. However, if the current book value is greater than the total outflows, the debtor should recognize gain on debt restructuring as an extraordinary one.

DEBT FORGIVENESS

The guide gives a definition regarding debt forgiveness as the voluntary cancellation of all or part of a debt obligation within a

[12] Department of Treasury of Australian Government, Accounting Manual, 2001, par. 11.7.4.3.
[13] Guide, par 271.
[14] See PSAK 54, Accounting for Receivable-Debt Restructuring, par 10–14.

contractual arrangement between a creditor in one economy and a debtor in another economy[15].

For the accounting purposes, the accounting for debt refinancing and restructuring, governed by PSAK 54, is valid accordingly.

ACCOUNTING FOR LIABILITIES OF GOVERNMENT GUARANTEE PROGRAMS

In many countries including USA and Indonesia, Government often guarantee debts incurred by other units. The creditor is reluctant to lend funds to the debtor if a general government unit does not guarantee the debt. In Indonesian case, up to the present time, the Government still guarantees the depositor of Indonesian Bank as stated in Presidential Decree No. 26 Year 1998. On this decree, the Government of Indonesia guarantees that the payment to depositors and creditors of Bank in Indonesia will be settled. Past experiences have shown that the financial consequences of this decree have resulted a huge government liability.

In this circumstance, SFFAS 5 requires recognition of the liability that is known with certainty as a contingent liability. Since this paper does not cover contingent liability, it is recommended to elaborate this topic through specific study focusing to contingent liability in Indonesia.

DEBT MANAGEMENT OF GOVERNMENT OF INDONESIA

For several decades, the government of Indonesia treated foreign loan as a part of revenue items and the payment of principal and interest as part of disbursement items on the state budget.

After the 1998 reformation, the need for transparency is becoming important. It also reflects in the state budget where loans and their payments are now treated as a part of financing items.

The need for greater transparency is still going on and right now, the presentation of the accumulation amount of loan is expected to be on the statement of financial position.

CENTRAL GOVERNMENT

A white paper issued by Ministry of Finance identified debt management as one of the problems that should be reformed because it has not been properly exercised[16]. For better financial management practices, a good debt management is believed to be one of the systems that need to be resolved and developed by Government of Indonesia.

At the present time the Ministry of Finance has applied Debt Management and Financial Analysis System (DMFAS) version 5.2 managed by DG Budget to administer foreign loans since 1999.

[15] Guide, Par 284.
[16] Ministry of Finance, The White Paper – Reform of Public Financial Management System in Indonesia: Principles and Strategy, July 10 2002, p. 10.

TYPES OF LIABILITIES

The main types of liabilities for the Central Government of Indonesia are borrowings from foreign and domestic sources.

Foreign borrowings

The term of foreign borrowings is defined as any receipt in foreign exchange and / or Indonesian currency and / or goods and / or services obtained from foreign donors that should be repaid back with certain requirements[17]. According to Statement of Foreign Loan Position foreign borrowings consist of loans from Bilateral, Multilateral, Export Credit, Commercial Credit, Leasing, and Bonds. The definition of each category is as follows[18]:

Bilateral loans are loans from foreign governments and their agencies, including central banks, loans from autonomous institutions, and direct loans from official export agencies.

Multilateral Loans are loans and credits from the World Bank, regional development banks, and other multilateral and intergovernmental agencies. It is not in this category if the international organizations act on behalf of a single donor government.

Export Credits are a financial instrument to fund cross-border purchase of specific goods. This financial instrument is commonly provided by Export Credit Agencies (ECA).

Commercial Credits are private loans obtained from commercial banks, including private banks and financial institutions.

Leasing is a financial instrument to fund purchase of specific goods from leasing company.

Bond is a legal document that makes an obligation to pay a certain amount in the future.

Domestic Borrowings

The major domestic liability that GOI has is government notes (SUN / Surat Utang Negara). According to Law No 24 Year 2002, SUN is a marketable security in the form of debt confession certificate in Indonesian currency or foreign currencies and the Government of Indonesia guarantees the payments of the principal and its interest during the applicable period.

The Law No, 24 classifies the government notes into two categories as follows,

1. Treasury Bills (Surat Perbendaharaan Negara). This category is defined as government notes having period not more than twelve (12) months and its interest amount is a discounted value.

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[17] See Joint Decree between Minister of Finance and Head of Bappenas No. ~~185 / *KMK*.03 / 1995~~, dated 5 May 1995, article 1 (1) a).

[18] See Glossary, Central Government External Debt, Stock and Transaction of the period November 2002, Directorate of External Fund, Ministry of Finance.

2. Government Bonds (Obligasi Negara). This category is defined as government notes having period of more than twelve (12) months and its interests are paid by coupon and / or a discounted value.

According to the Law No 24 / 2002, the purposes of issuing government notes are:

1. To finance State Budget deficit
2. To cover the short of cash since the government cash outflow excesses the cash inflow during a fiscal year.
3. To manage State Debt Liability.

UNITS MANAGING LIABILITIES

There are two (2) units in Ministry of Finance that manage liabilities of Government of Indonesia, namely Directorate of External Fund (DDLN / Direktorat Dana Luar Negeri) and Center for Government Bond Management (PMON / Pusat Manajemen Obligasi Negara).

Directorate of External Fund is a unit under Directorate General of Budget that has responsibility to design a standardization of policy and technical assistance, evaluation, and implementation in the area of foreign loans and grants.

Center for Government Bond Management is a unit under Secretariat General that is responsible for managing all government bonds based on the existing policy and regulations. It includes the issuance, selling, repayment, administration and recording, and portfolio risk control of bond, as well as market development.

SYSTEM AND PROCEDURE OF GOVERNMENT LIABILITY

Foreign borrowings

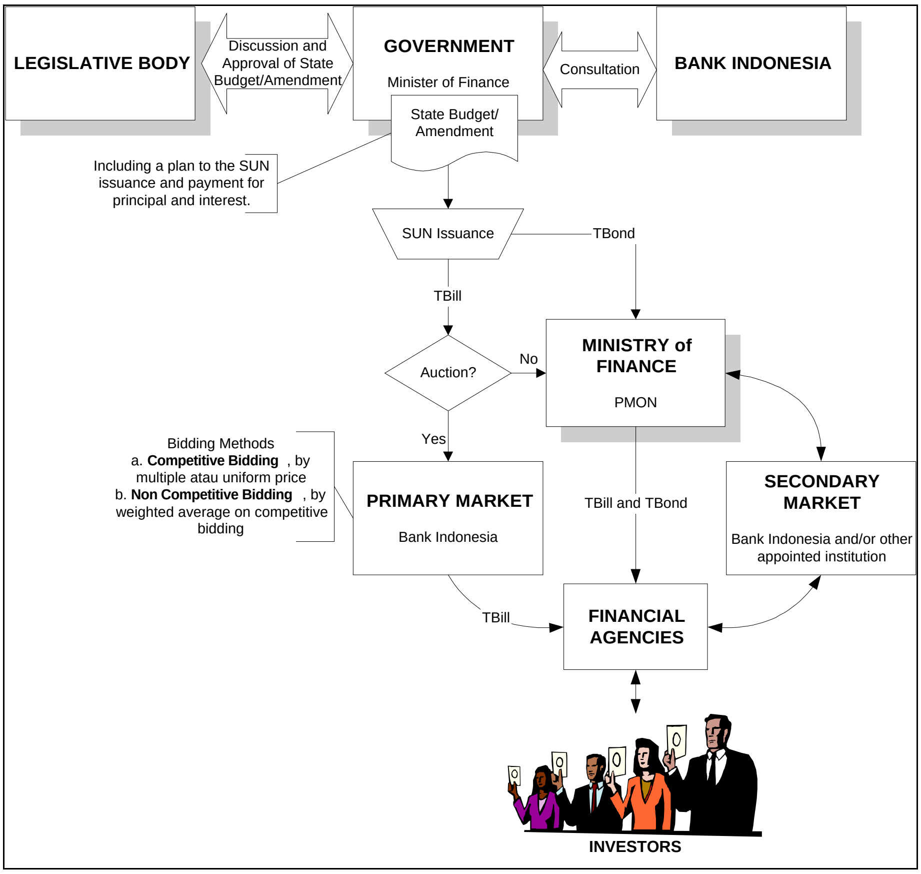
System and procedure foreign loans are guided by a joint decree between Minister of Finance and Head of Bappenas No. $\frac{185/KMK.03/1995}{KEP.031/KET/5/1995}$, dated 5 May 1995 and its amendment No. $\frac{459/KMK.03/1999}{Kep264/KET/09/1999}$ dated 29 September 1999.

According to the regulation, foreign loans incorporates several stages, namely planning, project proposal, evaluation on project preparation, negotiation, signing the loan agreement, and the implementation. After the loan agreement is signed, DDLN, then, records the agreement into the Debt Management and Financial Analysis System (DMFAS) regarding loan amount, loan period, date of principal payment due, interest rate, commitment fee, and other information needed. This system will provide reports regarding amounts of principal, interests, and other expenses that have been due at a certain date.

DMFAS has also a feature to calculate the accrued expenses at the end of financial reporting period. However, since DDLN has never requested to provide the accrued expenses, this feature has never been utilized.

Domestic Borrowings

As described before, the GOI has issued Tbills and Tbonds to finance a specific government programs as determined in the state budget. Procedures in the issuance of government debt involve several institutions, namely Legislative Body, Ministry of Finance, Bank of Indonesia, financial agencies, and private banks. The procedures and the involvement amongst these institutions are described in the following picture,



Before the issuance of Law No. 24, the Government of Indonesia has issued Tbonds for several programs. One is to finance the recapitalization program of Indonesian banks.

LOCAL GOVERNMENT

The regulations underlying local government borrowings are the Law 25 Year 1999 and Government Regulation No. 107 Year 2000. Under the Law 25/1999, local governments are given substantial latitude to lend money from domestic sources and from foreign sources through the central government.

The role of central government on local borrowing is an issue across the nation. Following Law 25/1999, most of local governments believe that they have a fully regional autonomy and are reluctant to significant role of central government on local borrowing[19].

[19]Arlen T. Pakpahan, Raksaka Mahi and Robert Simanjuntak, Managing Local Government Borrowing: The case of Indonesia, this paper is presented at the World Bank Workshop on Intergovernmental Fiscal Relations in East Asia, Bali Cliff Hotel, Bali, January 10-11,2002.

RDA AND SLA MECHANISMS

The dominant source of local borrowing prior Government Regulation 107 came from the central government budget by way of the Regional Development Account (RDA/Rekening Pembangunan Daerah). The RDA was designed to rationalize and unify the system of local government financing. It is set up as revolving fund in an account of Bank Indonesia and administered and managed by the Ministry of Finance.

According to Minister of Finance Decree No. 347a/KMK.017/2000, the sources of RDA are from debt service payment by local governments and local government enterprises (BUMD), fund allocated from the central government budget, and foreign loans and grants.

To realize the disbursement, RDA is operated by two mechanisms, namely through the regional Investment Fund Account (RDI) and the Subsidiary Loan Account (SLA). For the SLA mechanism, Minister of Finance Decree No SLA 35/ KMK.07/2003 is a reference for implementation.

The differences between the two mechanisms are that RDI organizes funds from the central government and other domestic sources, while SLA organizes funds from foreign loans and grants.

Although the two mechanisms have been criticized due to the centralized control by Ministry of Finance and their inconsistency on applying the borrowing terms among the local government[20], these two mechanisms are still used as an instrument for local government borrowings. At the year of 2000, the total amount of funds disbursed under RDI and SLA mechanisms was about 4.6 trillion Rupiah, in which about 74 per cent was managed under the SLA mechanism and the rest of 26 percent was organized under RDI[21].

However, the repayment of loans by the local governments in the past has been unsatisfactory. At the end of 1999, over 40 percent of total amounts due (on principal, interest, penalties, etc.) for SLA and RDI loans were in arrears[22].

Due to the past experience of local government borrowing through the two mechanism, MOF Decree delays the local government borrowings by issuing Ministry of Finance Decree No. 99/KMK.07/2001 and No. 625/KMK.01/2001 regarding the Postponement of Local Government Borrowings. These decrees have delayed the local government borrowing as regulated by Government Regulation No. 107/2000. Thus, the mechanisms of local government borrowing are still by applying RDA and SLA regulations.

[20] See Sri Mulyani Indrawati and James Alm, Decentralization and Local Government Borrowing in Indonesia, Georgia State University, May 2002.
[21] Carunia Mulya Firdaus, Ph.D, Study on Local Government Finance and Bond Market Financing in Indonesia, ADB, 2002, p. 58.
[22] Ibid, p. 61

ACCOUNTING ISSUES REGARDING RDA AND SLA

It is clear for local government to record interest and other expenses for any costs incurred to acquire loan from central government. However, there is a question regarding the interest charged by central government to local government, through RDA and SLA mechanism, whether it is a revenue or reduction of expenses.

Under SLA mechanism, local government borrowings are supported by foreign loans. Central government has to pay the interests to the lender as stated on loan agreement whereas local government pays the interest to central government as stated on subsidiary loan agreement though SLA account. Since the interest rate charged and the currency used on loan agreement are usually different with those on subsidiary loan agreement, the central government has to bear the consequences of such discrepancy.

From the above explanation, to the central government, the interest charged to local governments is a reduction of interest expenses charged by lenders. The presentation of these two kinds of interests should be on the same account, thus users of financial statement could be presented with the real interest costs that become a liability for central government.

PRESENTATION PRACTICES IN SEVERAL COUNTRIES

CANADA

Derived from Annual Financial Report for the fiscal year 2000-2001, The Government Debt is provided in the separated table as follows,

Figure 2 – Table of Interest bearing Debt of Canada Government

INTEREST-BEARING DEBT

	April 1/2000	Receipts and other credits	Payments and other charges	March 31/2001
	$	$	$	$
Unmatured debt[1]—				
Payable in Canadian currency—				
Marketable bonds, Table 6.2	293,926,641,450	45,650,868,863	44,604,756,000	294,972,747,313
Treasury bills, Table 6.3	99,850,000,000	174,300,000,000	185,450,000,000	88,700,000,000
Canada savings and Canada premium bonds, Table 6.4	26,489,009,981	2,958,862,552	3,348,767,748	26,099,104,785
Non-marketable bonds and notes, Table 6.5	3,552,256,979	2,333,531,378	2,412,150,859	3,473,637,498
	423,817,910,338	*225,243,253,993*	*235,815,674,607*	*413,245,489,776*
Payable in foreign currencies—				
Marketable bonds, Table 6.2	21,412,658,600	1,928,366,398	2,682,959,905	20,658,065,093
Canada bills, Table 6.6	6,807,777,494	31,299,331,095	30,179,459,405	7,227,649,184
Canada notes, Table 6.7	1,052,856,000	662,799,000	135,632,000	1,580,023,000
Euro medium-term notes, Table 6.8	4,315,168,312	185,836,308	808,921,851	3,692,082,769
	33,588,460,406	*34,176,332,801*	*33,606,973,161*	*33,157,820,046*
Total—Unmatured debt	456,406,370,736	259,419,586,794	269,422,647,768	446,403,309,762
Pension and other accounts—				
Public sector pensions, Table 6.13—				
Superannuation accounts	147,109,722,299	16,525,251,383	20,060,760,187	143,572,213,697
Allowance for pension adjustments	(18,764,000,000)	10,482,000,000	6,025,000,000	(14,387,000,000)
	128,345,722,299	*26,925,251,383*	*26,685,760,187*	*129,185,213,697*
Due to Canada Pension Plan, Table 6.25—				
Canada Pension Plan Account	6,217,506,584	24,976,648,007	24,803,629,251	6,390,525,340
Other—				
Government Annuities Account	545,891,115	30,618,974	68,921,125	507,588,964
Confederation Bridge	785,613,204		15,438,639	770,174,565
Pilot Training Program—MILIT-AIR Inc.	700,000,000	37,349,842	31,091,318	709,258,524
Deposit and trust accounts, Table 6.28	1,214,353,629	1,037,585,871	914,494,554	1,337,444,946
Other specified purpose accounts, Table 6.29	3,714,106,194	2,110,172,897	1,899,394,982	3,928,884,109
	6,962,966,142	*3,218,727,584*	*2,929,340,618*	*7,253,353,108*
Total—Pension and other accounts	141,526,195,025	55,121,627,176	53,818,730,056	142,829,092,145
Total	597,932,565,761	314,541,213,970	323,241,377,824	589,232,401,907

Figure 3 – Table of Marketable Bonds of Canada Government

MARKETABLE BONDS

Maturity date	%	Issue date	Series	April 1/2000	Receipts and other credits	Payments and other charges	March 31/2001
				$	$	$	$
Payable in Canadian currency—							
Matured 2000-2001							
2000—May 1	9.75	Feb 1/90-Feb 15/90	A30	1,575,000,000		1,575,000,000	
July 1	10.5	Mar 15/90-Mar 29/90					
		June 21/90-Aug 1/90	A32	2,900,000,000		2,900,000,000	
July 1	15	July 1/81	J70	175,000,000		175,000,000	
Sept 1	11.5	May 1/90-Nov 1/90	A33	1,200,000,000		1,200,000,000	
Sept 1	7.5	June 1/95-July 4/95					
		Sept 1/95	A61	7,600,000,000		7,600,000,000	
Dec 1	5	June 15/98-Sept 15/98	WP56	7,000,000,000		7,000,000,000	
Dec 15	9.75	Dec 15/78	J22	500,000,000		500,000,000	
2001—Feb 1	15.75	June 1/81-July 31/81	J66	425,000,000		425,000,000	
Mar 1	10.5	Sept 20/90-Oct 1/90					
		Dec 13/90-Feb 1/91	A37	3,175,000,000		3,175,000,000	
Mar 1	7.5	Oct 2/95-Dec 1/95					
		Jan 4/96-Mar 1/96	VR22	9,400,000,000		9,400,000,000	
				33,950,000,000		*33,950,000,000*	

Figure 4 – Table of Treasury Bills of Canada Government

TREASURY BILLS

(in millions of dollars)

	Issues				Redemptions				
	3 month bills	6 month bills	Other bills	Total	3 month bills	6 month bills	Other bills	Total	Net change
April, 2000	7,200	3,300	3,300	13,800	7,400	5,400	16,250	21,050	(7,250)
May	6,000	3,000	3,000	12,000	7,600	3,200	2,900	13,700	(1,700)
June	5,600	2,600	2,600	11,000	8,200	3,100	3,300	14,600	(3,600)
July	5,600	2,600	2,600	11,000	8,000	3,500	3,700	15,200	(4,200)
August	9,900	4,300	9,300	23,500	9,400	7,200	4,000	20,600	2,900
September	6,400	2,800	2,800	12,000	5,800	3,500	6,900	18,200	(6,200)
October	6,400	2,800	2,800	12,000	5,800	3,100	3,400	12,300	(300)
November	6,400	2,800	2,800	12,000	6,800	2,800	3,200	12,400	(400)
December	6,400	2,800	2,800	12,000	6,700	2,600	3,100	12,400	(400)
January, 2001	7,300	3,300	3,100	13,500	6,400	2,700	3,500	12,600	900
February	8,200	3,400	3,400	15,000	6,400	2,900	3,600	12,900	2,100
March	12,300	5,300	9,100	26,500	9,600	2,600	7,100	19,500	7,000
	88,100	38,600	47,600	174,300	87,700	40,600	56,950	185,450	(11,150)
Balance at April 1, 2000									99,850
Balance at March 31, 2001									88,700

UNITED STATES

Financial Report of the United States Government provides liabilities information on the face of Balance Sheet as depicted in figure 3. Note to financial statement describes the category of Federal Debt securities as shown in figure 5.

Figure 5 – Asset and Liabilities Presentation, extracted from Balance Sheet of United States Government

United States Government
Balance Sheets
as of September 30, 2002 and September 30, 2001

(In billions of dollars)	2002	2001
Assets:		
Cash and other monetary assets (Note 2)	141.6	108.0
Accounts receivable, net (Note 3)	32.0	34.2
Loans receivable, net (Note 4)	219.2	208.9
Taxes receivable, net (Note 5)	21.4	21.1
Inventories and related property, net (Note 6)	192.2	183.8
Property, plant and equipment, net (Note 7)	324.7	306.7
Other assets (Note 8)	65.4	63.4
Total assets	996.5	926.1
Liabilities:		
Accounts payable (Note 9)	55.8	56.2
Federal debt securities held by the public and accrued interest (Note 10)	3,573.2	3,359.3
Federal employee and veteran benefits payable (Note 11)	3,589.4	3,360.8
Environmental and disposal liabilities (Note 12)	273.0	306.8
Benefits due and payable (Note 13)	95.3	86.0
Loan guarantee liabilities (Note 4)	28.1	27.7
Other liabilities (Note 14)	201.9	188.1
Total liabilities	7,816.7	7,384.9
Commitments and contingencies (Note 18)		
Net position	(6,820.2)	(6,458.8)
Total liabilities and net position	996.5	926.1

Note to financial statement describes the types and the amounts of federal debt securities as shown in figure below,

Figure 6 – Federal Debt Securities Information, extracted from Notes to Financial Statement of United States Government

Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	Balance September 30, 2001	Net Change During Fiscal 2002	Balance September 30, 2002	Average Interest Rate 2002	Average Interest Rate 2001
Treasury Securities (Public):					
Marketable securities					
Treasury bills	734.8	133.4	868.2	1.7%	3.5%
Treasury notes	1,528.1	87.2	1,615.3	4.7%	5.8%
Treasury bonds	652.3	(14.5)	637.8	8.0%	8.0%
Total marketable Treasury securities	2,915.2	206.1	3,121.3		
Non-marketable securities	424.1	7.7	431.8	6.0%	6.3%
Net unamortized premium/ (discounts)	(46.0)	6.7	(39.3)		
Total Treasury securities, net (public)	3,293.3	220.5	3,513.8		
Agency Securities:					
Tennessee Valley Authority	24.9	-	24.9		
All other agencies	1.6	-	1.6		
Total agency securities, net of unamortized premiums and discounts	26.5	-	26.5		
Accrued interest payable[1]	39.5	(6.6)	32.9		
Total Federal debt securities held by the public and accrued interest	3,359.3	213.9	3,573.2		

Types of marketable securities:
Bills – Short-term obligations issued with a term of 1 year or less.
Notes – Medium-term obligations issued with a term of at least 1 year, but not more than 10 years.
Bonds – Long-term obligations of more than 10 years.

[1] See Note 1B- Basis of Accounting and Revenue Recognition.

CITY OF BARCELONA

The Balance sheet of City of Barcelona for the year 2001 reveals the liability information as follows.

Figure 7 – Liability Presentation, extracted from Balance Sheet of City of Barcelona

City of Barcelona
Balance sheet as of December 31, 2001 and 2000
(In thousands of euros)

Liabilities	Note	As of December 31, 2001	As of December 31, 2000
Net worth	7	**3,764,221**	**3,652,133**
Net worth		8,323,541	8,045,064
Property assigned to municipal agencies		(131,191)	(130,390)
Property assigned to third parties		(469,433)	(432,314)
Property delivered for public use		(4,319,112)	(4,180,549)
Property assigned by municipal agencies and third parties		54,717	71,845
Surplus before allocation		305,699	278,477
Capital transfers received	8	165,639	150,998
Long-term provisions	9	21,035	240
Long-term loans and debentures	10	1,152,302	1,240,537
Long-term guarantees and deposits		10,373	9,520
Deferred income	12	28,506	29,522
Pluriannual transfers to HOLSA	2.3	237,333	266,771
Long-term liabilities		**5,379,409**	**5,349,721**
Accounts payable		219,966	222,471
Payable to public agencies	13	22,592	25,489
Other off-budget payables	11	40,456	42,906
Accrued expenses	14	44,902	76,539
Suspense account items		8,951	11,949
Current liabilities		**336,867**	**379,354**
TOTAL LIABILITIES		**5,716,276**	**5,729,075**

Notes 1-19 of the attached annual report are an integral part of the balance sheet as of December 31, 2001.

City of Barcelona in year 2001 report detailed long term loan as shown in figure 8 below.

Figure 8 – Long term loans and debentures, extracted from Balance Sheet of City of Barcelona

Note 10 - Long-term loans and debentures

The outstanding capital as of December 31, 2001, corresponding to long-term loans and debentures subscribed by the City of Barcelona is broken down as follows:

Long-term loans and debentures	
Description	**Outstanding capital as of December 31**
European Union Market	
• Bank loans	422,211
• Capital market	514,442
Subtotal	936,653
Non-European Union markets	
• Capital market	215,649
Total	**1,152,302**

The movement under the caption "Long-term loans and debentures" over the 2001 fiscal year was the following:

Balance as of December 31, 2000	**1,240,537**
Additions:	
• Debt substitution operations	120,202
Disposals:	
• Contractual repayments	(88,379)
• Reductions for debt substitution	(120,058)
Balance as of December 31, 2001	**1,152,302**

CONCLUSION AND RECOMMENDATION

CONCLUSION

Based on the discussion described in previous sections, we conclude that,

(1) Unlike Draft No. 1, IPSAS 1 does not describe detailed information dealing with liabilities. IPSAS 1 only provides guidance in dividing liabilities into two classifications, namely current and non-current liabilities.

(2) Draft No. 1, IPSAS 1, and PSAK 1 have the same opinion that past event is a basis for creating obligation and do not explicitly state the past transaction as a cause of liability recognition. Other standards, AAS 34 and SFFAS 5 treat past transactions together with past events as a trigger for liability recognition.

(3) SFFAS 5 differentiates transaction and event. A transaction is defined as the transfer of something of value. Transactions could be exchange transactions or nonexchange transactions. An event is defined as a happening that has financial consequence to government. These events are classified into two categories: (1) government-related events or (2) government-acknowledged events.

(4) Draft No 1 recommends using nominal value as a basis of recording and to translate foreign currencies into Indonesian currency at the reporting date. Including foreign currency treatment in defining liabilities is not common practice. Usually, transactions in foreign currency are prescribed on separated accounting standards.

(5) Unlike Draft 1, in addition to the twelve-month criterion, PSAK 1 and IPSAS also use another criteria for current liability that it is expected to be settled in the normal course of the entity's operating cycle. This will cover government entities having operating cycle more than twelve months.

(6) Government debt securities may be divided into two broad groups, namely marketable securities and nonmarketable securities. Marketable securities may be traded any number of times before they reach maturity while nonmarketable securities must be held by the original purchaser until they mature or are redeemed by the government.

(7) For accounting purposes, SFFAS 5 divides government debt securities into two major categories, namely fixed value securities and variable value securities. Fixed value securities are defined as government securities that have a known maturity or redemption value at the time of issuance while variable value securities are defined the government securities that have unknown redemption or maturity values at the time of issuance.

(8) Accounting standard generally requires an immediate expensing of borrowing costs when it occurs. However, standard permits alternative treatment to capitalize borrowing costs if these costs are directly attributable to the acquisition, construction or production of a qualifying asset.

(9) Government debt recording systems in many countries do not record interest costs that have accrued and not yet payable. For this issue, the Guide recommends including interest costs that have accrued and are not yet payable as part of the value of the related debt instruments. This is consistent with the accrual accounting basis, to recognize the liabilities as it occurs.

(10) Arrears are defined as amount overdue when the government fails to pay principal and interest as scheduled. In the accounting practice, the amount of arrears is rarely put on the face of financial statement. To provide such information, the government accounting standards may require the reporting entity to disclose arrears information on the notes to financial statement by providing aging of creditors.

(11) Government units may come to the arrangement with creditor to alter the agreement terms for servicing an existing debt or debt forgiveness. This process is known as debt reorganization. In accounting perspective, the debt reorganization basically involves two types of concession: (1) settlement of the debt at less than it book value and (2) continuation of the debt but with modified terms.

(12) At the present time, the dominant source of local borrowing came from the central government budget by way of the Regional Development Account (RDA / Rekening Pembangunan Daerah). To realize the disbursement, RDA is operated by two mechanisms, namely through the regional Investment Fund Account (RDI) and the Subsidiary Loan Account (SLA). For the SLA mechanism, Minister of Finance Decree No. SLA 35 / KMK.07 / 2003 is a reference for implementation. The differences between two of mechanisms are that RDI organized funds from the central government and other domestic sources, while SLA organized funds from foreign loans and grants.

RECOMMENDATION

Based on our study we suggest some points to be considered as follows,

NAME OF STANDARD

The name of Standard should be "Accounting for Liabilities and related costs".

OBJECTIVE AND SCOPE OF STANDARD

The objective of this standard is to prescribe the accounting treatment, including the timing of recognition, the determination of their carrying value, and the depreciation charges in relation to them.

This standard applies to all government entities, which prepare and present financial statements. However, it does not apply to current liability that will be on separated standard.

DEFINITION OF LIABILITIES

Referring to Draft No. 1, Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

The standard should state particularly that definition of liabilities includes past transactions together with past events as a trigger for liability recognition.

RECOGNITION OF LIABILITIES

Principle for recognition of liability as stated in SFFAS 5 is good reference to determine government liability recognition. This standard guides the differences between transaction and event. A transaction is defined as the transfer of something of value. Transactions could be exchange transactions or nonexchange transactions. An event is defined as a happening that has financial consequence to government. These events are classified into two categories: (1) government-related events or (2) government-acknowledged events.

VALUATION

Generally, government debt instruments are divided into two groups, namely nontraded debts and traded debt instruments. For nontraded instruments, it is recommended to use a nominal value at the reference date.

For traded instruments it is recommended to refer SFFAS 5 in measuring government debt securities. This standard recommends to use the nominal value for fixed value securities and market value for variable value securities[lr1].

If government securities are retired prior to the maturity date due to a call feature of the security or redemption by the holder, the difference between the reacquisition price and the net carrying value of the extinguished debt should be recognized currently in the period of the extinguishments as losses or gains.

ACCOUNTING FOR LIABILITIES RELATED COSTS

IPSAS 5 and AAS 34 are a good reference for liabilities related costs. These standards require the immediate expensing of borrowing costs when it occurs. However, the Standards permit alternative treatment to capitalize borrowing costs if these costs are directly attributable to the acquisition, construction or production of a qualifying asset.

AAS 34 provides some detail for this topic. In case of more than one qualifying assets funded by one government debt, AAS 34 guides that the total of borrowing costs capitalized during a reporting period must not exceed the total of borrowing costs incurred during that reporting period. If the funds are borrowed generally for more than one qualifying assets, the borrowing costs to be capitalized to qualifying assets must be calculated using the weighted average accumulated expenditures relating to qualifying assets during the reporting period.

OTHER ISSUES RELATED TO LIABILITY

Accrued Interests

The standard should clearly state that it is recommended to present interest costs that have accrued and are not yet payable as part of the value of the related debt instruments. This is consistent with the accrual accounting basis, to recognize the liabilities as it occurs.

Arrears

For policy and solvency analyses, information on debt in arrears will enable users to get more understanding. However, it is not common to put the amount of arrears on the face of financial statement.

To provide such information, the standard should define arrears and require the reporting entity to disclose arrears information on the notes to financial statement by providing aging of creditors on the notes to financial statement as apart of other disclosure relating to liabilities.

Debt Reorganization

PSAK 54 should be a reference for debt reorganization in term of debt refinancing Rescheduling, and Forgiveness. In accounting perspective, the debt reorganization basically involves two types of concession: (1) settlement of the debt at less than it book value and (2) continuation of the debt but with modified terms.

For the first condition, PSAK 54 treats that the amount of the debt reduction may create gain on settlement of debt. If the debt is settled by transfer of non cash assets, the debtor should revalue the assets to their current fair market value, and recognizing any related gain or loss as an ordinary one.

For the last condition PSAK 54 governs that the debtors should record the effect of restructuring process prospectively. If the current book value is less than the total outflows, no adjustment is made to the liability account at the time of rescheduling. However, if the current book value is greater than the total outflows, the debtor should recognize gain on debt restructuring as an extraordinary one.

DISCLOSURE REQUIREMENTS

Presentations in several countries reveal that the disclosure of government debt should be in detail and in schedule form to provide more information for users regarding the government liability.

To enhance analytical usefulness and based on the previous sections, the below information should be provided on the notes to financial statements. They are,

(1) The amount of outstanding liabilities by lender for current and non current portions.

(2) The amount of outstanding government debt securities by types of securities and maturity date

(3) Periodic interest costs that have accrued and are not yet payable.

(4) Aging of Creditors

(5) Debt Reorganization arrangement, including

   a. Debt Reduction

   b. Modified terms agreed

      i. Reduction in the stated rate of interest.

      ii. Extension of the maturity date.

      iii. Reduction of the face (maturity) value.

      iv. Reduction in the interest accrued to date.

OTHER POINTS

Accounting Issue regarding RDA and SLA

It is clear for local government to record interest and other expenses for any costs incurred to acquire loan from central government. However, there is a question regarding the interest charged by central government to local government, through RDA and SLA mechanism, whether it is a revenue or reduction of expenses. For central government the interest charged to local government should be a reduction of interest expenses charged by lender. The presentation of these two kinds of interests should be on the same account, thus the user of financial statement would be presented with the real interest costs that become a liability for central government.

Accounting for Liabilities of Federal Insurance and Guarantee Programs

Government often guarantee debts incurred by other units. The creditor is reluctant to lend funds to the debtor if a general government unit does not guarantee the debt. In Indonesian case, up to the present time, the Government still guarantees the depositor of Indonesian Bank as stated in Presidential Decree No. 26 Year 1998. On this decree, the Government of Indonesia guarantees that the payment to depositors and creditors of Bank in Indonesia will be settled. In this circumstance, this may create liability that is known with certainty as a contingent liability. Since this paper does not cover contingent liability, it is recommended to elaborate this topic through specific study focusing to contingent liability in Indonesia.

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