

**STUDY ON  
NOTES TO THE FINANCIAL  
STATEMENTS**

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## ACRONYMS

APBD	The Local Government Budget ((Anggaran Pendapatan dan Belanja Daerah)
APBN	The State Budget (Anggaran Pendapatan dan Belanja Negara)
IASB	International Accounting Standard Board
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standard
MD&A	Management Discussion and Analysis
SFFAC	Statement of Federal Financial Accounting Concept
SFFAS	Statement of Federal Financial Accounting Standards

STUDY ON

# NOTES TO THE FINANCIAL STATEMENTS

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## INTRODUCTION

The Committee of Government Accounting Standard Development has developed one (1) Conceptual Framework for Government Accounting and three (3) other standards, namely:

- (1) Statement No. 1 – Presentation of Financial Statements, hereinafter referred to as Draft No. 1;
- (2) Statement No. 2 – Budget Realization Report, hereinafter referred to as Draft No. 2;
- (3) Statement No. 3 – Cash Flow Statements, hereinafter referred to as Draft No. 3;

Those standards are being discussed intensively by users, academics, auditors, accounting professionals, and others. In addition to the above standards, the Committee also has a plan to develop some other government accounting standards and including a standard for Notes to Financial Statements.

An in depth study of the above materials should be an excellent initial step of our effort to develop standard for notes to financial statements. Studying Draft No. 1 could be a good start to understand what the objective and the need of this standard are.

Having understood of the Draft No. 1, the next step is to compare Draft No. 1 with the International Public Sector Accounting Standards (IPSAS) No. 1 issued by International Federation of Accountants (IFAC). IPSAS is included since the committee has decided to set IPSAS as the main references in developing government accounting standards in Indonesia.

Having made comparison of the two standards, we, then, identify the key differences. Each of key differences will be elaborated and the related studies are taken. Conclusively the study will provide significant points and bring up the recommendations to be considered in developing standard of notes to financial statements.

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## DRAFT NO. 1 – PRESENTATION OF FINANCIAL STATEMENTS

Draft No. 1 provides the objectives, scope, and accounting basis of financial reporting. Moreover, Draft No. 1 also prescribes Structure and Contents of Financial Statements, including Notes to Financial Statements at paragraph 87-97

Draft No. 1 prescribes that notes to financial statement present all information that are usually presented in Notes to Accountability Report of both Central and Local Governments (known as “*Nota Perhitungan APBN/APBD*”) as a part of Budget Accountability Report (known as “*Laporan Perhitungan Anggaran*”). Paragraph 87 of Draft No. 1, then, identifies this information, such as the following

- (1) Provide information on financial and fiscal policies, macro economy, target achievement of government budget, including existing obstacles and difficulties to accomplish the targets;
- (2) Present summary of performance achievement within the reporting period;
- (3) Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events;
- (4) Disclose the information required by International Public Sector Accounting Standards that is not presented elsewhere in the financial statements; and
- (5) Disclose information for asset and liability accounts brought up due to the implementation of accrual basis on revenues and expenditures, as well as its reconciliation with the implementation of cash basis.
- (6) Provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

Points (1) and (2) are designed to accommodate the information that originated from “*Nota Perhitungan APBN/APBD*”. Points (3), (4), and (6) are intended to adopt IPSAS No. 1 paragraph 122. Point (5) is to link the information presented by accrual basis and by cash basis to provide readers of financial statements with more complete information.

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## “NOTA PERHITUNGAN APBN/APBD”

Although there is no written regulation governs the structure and contents of “*Nota Perhitungan APBN/APBD*”, both central and local governments submit the Accountability Report (known as “*Laporan Pertanggungjawaban/LPJ*”), including “*Nota Perhitungan Anggaran*”.

In practice, the content of a “*Nota Perhitungan Anggaran*” consists of:

- (1) Introduction  
This section describes the analysis of macro economy, target achievement of government budget, including existing obstacles and difficulties to accomplish the targets.
- (2) Realization of Government Revenues and Grants  
This section discusses and elaborates the government revenues and grants.

- (3) Realization of Government Expenditures  
This section discusses the government expenditures in detail items.
- (4) Budget Deficit  
This section explains the budget deficit and the efforts of government to control it.
- (5) Financing for Budget Deficit  
To cover the budget deficit, at this section government explains the source of fund to finance the deficit.
- (6) Fund Balance  
This section states the amount of fund balance for the current fiscal year.

## IPSAS 1 vs. DRAFT NO. 1

### STRUCTURE

IPSAS 1 (May 2000) provides an outline of Notes to Financial Statements as follows,

122. *The notes to the financial statements of an entity should:*
- (a) *present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events;*
  - (b) *disclose the information required by International Public Sector Accounting Standards that is not presented elsewhere in the financial statements; and*
  - (c) *provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.*

As explained before, Draft No 1 modified IPSAS No. 1 by adding three (3) other points, which are:

- (1) Provide information on financial and fiscal policies, macro economy, target achievement of government budget, including existing obstacles and difficulties to accomplish the targets;
- (2) Present summary of performance achievement within the reporting period;
- (3) Disclose information for asset and liability accounts brought up due to the implementation of accrual basis on revenues and expenditures, as well as its reconciliation with the implementation of cash basis.

As a consequences of adding more points above, Draft No. 1 append the paragraph 125 IPSAS by two (2) more points as follows:

<b>IPSAS 1</b>	<b>Draft No 1</b>
<i>125. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with</i>	<i>90. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them</i>

<p><i>those of other entities:</i></p> <p>(a) <i>statement of compliance with International Public Sector Accounting Standards (see paragraph 26);</i></p> <p>(b) <i>statement of the measurement basis (bases) and accounting policies applied;</i></p> <p>(c) <i>supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and</i></p> <p>(d) <i>other disclosures, including:</i></p> <p style="padding-left: 20px;"><i>(i) contingencies, commitments and other financial disclosures; and</i></p> <p style="padding-left: 20px;"><i>(ii) non-financial disclosures.</i></p>	<p><i>with those of other entities:</i></p> <p>(a) <i>Information on financial and fiscal policies, macro economy, target achievement of budget, including existing obstacles and difficulties to accomplish the targets;</i></p> <p>(b) <i>Information on summary of performance achievements within the reporting period;</i></p> <p>(c) <i>statement of compliance with International Public Sector Accounting Standards (see paragraph 26);</i></p> <p>(d) <i>statement of the measurement basis (bases) and accounting policies applied;</i></p> <p>(e) <i>supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and</i></p> <p>(f) <i>other disclosures, including:</i></p> <p style="padding-left: 20px;"><i>i. contingencies, commitments and other financial disclosures; and</i></p> <p style="padding-left: 20px;"><i>ii. non-financial disclosures</i></p>
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## **PRESENTATION OF ACCOUNTING POLICIES**

The differences between IPSAS No. 1 and Draft No. 1 dealing with the accounting policies that an entity might consider presenting on notes to financial statement, as follows:

<b>IPSAS 1</b>	<b>Draft No 1</b>
<i>(a) Revenue recognition</i>	<i>(a) Revenue Recognition</i>
<i>(b) Consolidation principles, including controlled entities</i>	<i>(b) Expenditure Recognition</i>
<i>(c) Investments</i>	<i>(c) Consolidation Principles</i>
<i>(d) Recognition and depreciation/amortization of tangible and intangible assets</i>	<i>(d) Investments</i>
	-
<i>(e) Capitalization of borrowing costs and other expenditure:</i>	<i>(e) Recognition and Disposal of Tangible and Intangible Assets</i>
<i>– inventories held for sale</i>	
<i>– other qualifying assets</i>	
<i>(f) Construction contracts</i>	<i>(f) Construction contracts</i>
	<i>(g) Capitalization of expenditure policy</i>
<i>(g) Investment properties</i>	-
<i>(h) Financial instruments and investments</i>	<i>(h) Investment in marketable securities</i>
<i>(i) Leases</i>	<i>(i) Partnership with third party</i>
	-

<i>(j) Research and development costs</i>	<i>(j) Research and development costs</i>
<i>(k) Inventories:</i>	<i>(k) Inventories, held for sale or for consumption</i>
<i>– held for resale</i>	
<i>– for consumption</i>	
	<i>(l) Reserve Fund Establishment</i>
<i>(l) Provisions</i>	
<i>(m) Employee benefit costs</i>	<i>(m) Employee benefit costs</i>
<i>(n) Foreign currency translation and hedging</i>	<i>(n) Foreign currency translation and hedging</i>
<i>(o) Definition of segments and the basis for allocation of costs between segments</i>	-
<i>(p) Inflation accounting</i>	-
<i>(q) Government grants.</i>	-

## STANDARD FOR NOTES TO FINANCIAL STATEMENT

It is not often to find a standard for notes to financial statements in a separated standard. The common practice is that standard for notes to financial statements is prescribed within all related standards.

Nonetheless, Australian Accounting Standard Board has issued Australian Accounting Standard (AAS) 37, “Financial Report Presentation and Disclosure”, October 1999. The purpose of this standard is to prescribe presentation and disclosure requirements for financial reports for accounting periods ending on or after 30 June 2001.

Information required by the standard are:

- Disclosures regarding the entity’s operations, audit arrangements, economic dependence, and dividends; and
- Period to period consistency in the presentation and classification of items in financial reports unless there is a significant change in the nature of the entity’s operations, a change in presentation required by an applicable accounting standard or Urgent Issues Group Consensus View, or more relevant presentation of classification of items will be achieved.

At a glance, the content of this standard includes,

- (1) General Requirement
- (2) Consistency of Presentation
- (3) Disclosures
- (4) Comparative Information
  - a. Financial Information
  - b. Reclassification of Financial Information
  - c. Narrative Information



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## PRACTICES IN SEVERAL COUNTRIES

### AUSTRALIA

Based on Annual Report of Department of Treasury and Finance 2001-02, main contents of notes to financial statements are:

- (1) Significant Accounting Policies, including reporting entity and accounting policies of significant accounts.
- (2) Output Groups of Department
- (3) Compliance with Financial Directives
- (4) Detail of main accounts
- (5) Schedule of Detail Movement in,
  - a. Fixed Assets
  - b. Equity
- (6) Risk exposures of financial instruments

### SPAIN

Derived from Annual Report of City of Barcelona 2001, main contents of notes to financial statements are:

- (1) Basis of Preparation, including accounting policies, annual statements and accounts, comparison of information.
- (2) Valuation criteria for main accounts
- (3) Tangible fixed assets and infrastructures, including the movement of different tangible fixed assets and infrastructure accounts (schedule)
- (4) Detail of Long Term financial investments by name of investment
- (5) Detail of main accounts

### CANADA

Founded on Public Accounts of Canada 2001-Volume I, main contents of notes to financial statements are:

- (1) Significant Accounting Policies, including reporting entity, basis of accounting, and accounting policies of significant accounts.
- (2) Spending and Borrowing Authorities
- (3) Detail of Revenues (Income Taxes, Other Taxes and Duties, and Non Tax Revenue)
- (4) Detail of Expenditures by using major classification, such as object expenditure (personnel, transportation and communication, etc.) and organization.
- (5) Unmatured Debt and other financial instruments, including Derivatives financial instruments and foreign currency contract)

- (6) Detail of main accounts

The disclosure of Fixed Assets is stated in Volume II of Public Accounts. In addition to Fixed Assets, Volume II of Public Accounts describes,

- (1) Detail of Expenditures and Revenues
- (2) Transfer Payment
- (3) Professional and Special Service

## **UNITED STATES**

Derived from Financial Report of the United States Government 2002, main contents of notes to financial statements are:

- (1) Summary of Significant Accounting Policies, including reporting entity, basis of accounting and revenue recognition, and accounting policies of significant accounts.
- (2) Detail of main accounts

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

As explained at the previous section, Draft No. 1 requires the government entity to disclose:

- (1) Information on financial and fiscal policies, macro economy, target achievement of government budget, including existing obstacles and difficulties to accomplish the targets;
- (2) Summary of performance achievement within the reporting period;

Usually, the two above information are disclosed as a Management's Discussion and Analysis (MD&A), which is a part of Annual Report and provided separately from notes to financial statements.

Statement of Federal Financial Accounting Concept (SFFAC) No 3 and Statement of Federal Financial Accounting Standards (SFFAS) No. 15 imposes the federal reporting entity to include MD&A on Annual Report. MD&A should be regarded as "required supplementary information (RSI)".

According to SFFAC No 3 and SFFAS 15, MD&A should contain sections that address:

- mission and organizational structure;
- discussion and analysis of the financial statements
- discussion and analysis of system, controls, and legal compliance
- discussion and analysis of performance

## **MISSION AND ORGANIZATIONAL STRUCTURE**

MD&A should contain a brief description of the mission(s) of the entity and describe its related organizational structure.

## **DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS**

MD&A should contain the information to:

- (1) Understand the significance and potential effect from both a short-term and long-term perspective.
- (2) Summarize the most important items, explain the relevant causes and effects, and place them in the context.
- (3) Describe major financing arrangements, guarantees, and lines of credit.
- (4) Explain budget major changes
- (5) Describe risk, uncertainties, events, and conditions that effect the amounts reported in the financial statements.

## **DISCUSSION AND ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

MD&A should include a discrete section that reports the status of entity's management system and internal controls that support:

- (1) Preparation of financial statements and performance information in accordance with accounting standards and management criteria;
- (2) The entity's compliance with applicable laws

## **DISCUSSION AND ANALYSIS OF PERFORMANCE**

MD&A should objectively discuss the entity's program results and indicate the extent to which its programs have achieved their intended objectives.

To meet the information required in Draft No. 1, the standard on notes to financial statements should standardize two (2) sections as stated in SFFAC No 3 and SFFAS 15, namely D&A Financial Statements and D&A Performance.

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## CONCLUSION AND RECOMMENDATION

### CONCLUSION

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

- (1) It is not often to find a standard for notes to financial statements in a separated standard. The common practice is that standard for notes to financial statements is prescribed within all related standards.
- (2) Draft No. 1 states that notes to financial statement includes information that are usually presented on Notes to Accountability Report (*Nota Perhitungan*). They are (a) financial and fiscal policies, macro economy, and target achievement of government budget, and (b) summary of performance achievement.
- (3) For that reason it is needed to formulate the accounting standard for notes to financial statement to accommodate information that are usually presented on Notes to Accountability Report (*Nota Perhitungan*).
- (4) SFFAC No. 3 and SFFAS No. 15 regarding “Management Discussion and Analysis could be considered as references, especially for sections discussing (a) analysis of the financial statements, and (b) analysis of performance.

### RECOMMENDATION

Based on the study, we suggest that,

Name of Standard : Government Accounting Standard No. XXX – “Notes to Financial Statement”

Main References : (1) AAS 37  
(2) SFFAC No. 3 and SFFAS No. 15  
(3) Practices in Several Countries

Coverage of Standard: Information to be provided on notes to financial statements

Outline of Standard :

1. Introduction
  - 1.1. Objectives
  - 1.2. Scope of Standard
  - 1.3. Definitions
2. General Requirements
  - 2.1. Language
  - 2.2. Reporting Period

- 2.3. Reporting Entity Identification
- 2.4. Cross-Referenced
- 2.5. Consistency of Presentation
- 3. Structure and Content of Notes to Financial Statement
  - 3.1. Discussion and Analysis
    - 3.1.1. Finance and Fiscal policies and macro economy.
    - 3.1.2. Target Achievements of Government Budget
    - 3.1.3. Discussion and Analysis of Financial Statements
    - 3.1.4. Discussion and Analysis of Performance
  - 3.2. Significant Accounting Policies
    - 3.2.1. Reporting Entity
    - 3.2.2. Basis of Preparation
    - 3.2.3. Valuation Criteria for Main Accounts, e.g. Temporary and Long Term Investment and Fixed Assets
  - 3.3. Detail of Revenues
  - 3.4. Detail of Expenditures using classification other than used on face value
  - 3.5. Detail Movement in Fixed Assets
  - 3.6. Detail of Accounts
  - 3.7. Reconciliation the implementation of accrual basis with cash basis for asset and liability accounts.
  - 3.8. Effective Date
  - 3.9. Transitional Provisions