TECHNICAL BULLETIN OF GOVERNMENT ACCOUNTING STANDARDS

TECHNICAL BULLETIN 07
REVOLVING FUNDS

THE GOVERNMENT ACCOUNTING STANDARDS COMMITTEE (KSAP)

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CHAPTER I

INTRODUCTION

A. Background

As part of the effort to encourage the growth and development of the people economy, the government adopted policies promoting the use of Revolving Funds so as to help provide capital for micro, small and medium enterprises and cooperatives. At the present time, the use of Revolving Funds is no longer confined to micro, small and medium enterprises and cooperatives, but also extended to large-scale commercial enterprises operating in areas of business that are not attractive to bank and non-bank financial institutions.

From the perspective of needs, the availability of Revolving Funds is of the utmost importance to the success and continuity of millions of micro, small and medium enterprises and cooperatives, with such enterprises accounting for some 99.9% of all businesses in 2003. From the perspective of benefit, Revolving Funds are of major assistance to micro, small and medium enterprises, which are of direct importance to the wellbeing of many millions of people. In 2004, Indonesia had some 44 million micro, small and medium enterprises, which employed 79 million people, or 99.5% of the overall labor force. If this sector was developed optimally, it would have a significant impact on the poverty-reduction effort and provide a major boost to economic growth. As per 2003, micro, small and medium enterprises gross domestic product accounted for 56.7% of Indonesia's total gross domestic product.

In the light of the above description, government needed to adopt policies to encourage the availability of Revolving Funds to micro, small and medium enterprises, cooperatives and other businesses. Such Funds need to be managed effectively so as to produce sustainable benefits in accordance with healthy business practices, transparency and accountability.

B. Issues concerning Revolving Funds

The introduction of a program to strengthen the capital base of micro, small and medium enterprises and cooperatives in 1993/1994 represents the starting point for the Revolving Fund program. In the small business sector, the Revolving Fund mechanism was first applied by the Ministry of Cooperatives and SMEs in 2000. Based on Indonesia's experience with Revolving Funds to date, the following issues may be identified:

1. Poor Revolving Fund services and performance, and lack of clarity in performance measurement.

   The objective of the Revolving Fund program is to strengthen the capital base of both SMEs and large commercial enterprises so as to improve public welfare. Through the use of the revolving fund mechanism, it is hoped to make funds available to as many people as possible so as to create a snowball effect. The performance of a Revolving Fund is assessed based on the number of entitled beneficiaries, the level of repayment of Revolving Fund loans, the recirculation of funds, and the increase in the welfare/economic capacity of beneficiaries. Based on these performance indicators, the longer the operation of the Revolving Funds, the more people who obtain the funding facility and the more people whose welfare are improved. In addition, the size of a Revolving Fund should continuously increase as a result of the revenue that arises from the operation of the Fund. At the very least, the size of a Revolving Fund should not fall below the level of its initial capitalization as a result of loans not being recovered.

While a Revolving Fund should continuously increase in size and be capable of being measured and reported, in reality this is frequently not the case due to a failure to apply healthy management practices.

In the administration of Revolving Funds in Indonesia to date, Fund administrators frequently fail to record receivables so that it is impossible to ascertain with any certainty the precise extent of the funds in circulation, the potential for recovery and the potential for default. In such cases, the administrators suffer from a lack of control and control mechanisms for the making of appropriate decisions in the context of safeguarding/recovering loans and expanding the beneficiary base/size of the Revolving Fund.

2. Low productivity of Revolving Funds due to internal issues affecting the performance of SMEs and Cooperatives

   The beneficiaries of Revolving Funds are frequently lack of financial management, marketing, and technology human resources. In addition, SMEs and Cooperatives often suffer from a lack of access to capital so that the funds provided by government are incapable of producing maximum benefit. As a consequence, SMEs and Cooperatives find themselves unable to repay their Revolving Fund loans so that the size of the fund is diminished and the number of potential beneficiaries reduced.

3. Diversity of Revolving Fund Administration in State Ministries/Institutions

Currently, the administration of Revolving Funds is spread over a number of ministries, including the State Ministry of Cooperatives and SMEs, Ministry of Agriculture, Ministry of the Marine and Fisheries, Ministry of Forestry, Ministry of Public Works and the State Ministry of Public Housing. As a result of this, the mechanisms through which Revolving Funds are managed vary significantly. In general, the following patterns of management are applied by State Ministries/Institutions:

a. A State Ministry/Institution extends Revolving Fund financing to certain associations (associations of SMEs and Cooperatives, individuals, and large-scale commercial enterprises), with the associations then being expected to recycle the funds provided. Repayments are not made directly to the State

Ministry/Institution, although it continues to monitor the revolving of the funds.

Example: In 2005, Ministry A established a Revolving Fund of Rp 50 billion to benefit fishermen/fishermen’s associations. One of the beneficiary groups was the Mina Sejahtera Fishermen’s Association in Sarua District, which received Rp 100 million. The said association had 100 members. Mina Sejahtera then extended loans up to a maximum of Rp 5 million to its members at an interest rate of 12% per annum, repayable within 1 year. The fishermen were to repay the loans to Mina Sejahtera based on the Fund rules and regulations. Mina Sejahtera had full responsibility for the management of the Revolving Fund, and was required to regularly report on its management to Ministry A.

Ministry A provided information and training to Mina Sejahtera and the fishermen on the use of the Revolving Fund. The ministry only reported on the initial expenditure on the Revolving Fund and did not report the Revolving Fund as an asset in its Balance Sheet.

b. A State Ministry/Institution extends Revolving Fund financing to associations (associations of SMEs and Cooperatives, individuals, and large-scale commercial enterprises), with the associations then being expected to recycle the funds provided. Repayments are not made directly to the State Ministry/Institution, and the State Ministry/Institution does not conduct follow-up monitoring as regards the revolving of the funds, with the entire responsibility being entrusted to the associations concerned.

   Example: In 2006, Ministry B extended Revolving Fund financing worth Rp 60 billion to primary cooperatives. One of the beneficiaries was the Seiasekata Cooperative located in Bukit Merindu District, which had 100 members and received a total of Rp 200 million. The cooperative then extended loans up to a maximum of Rp 5 million to its members at an interest rate of 12% per annum, repayable within 1 year. The cooperative members were required to repay the loans to the cooperative based on the Fund rules and regulations, with the revenue received then being recycled to other members.

Ministry B left the management of the Revolving Fund entirely up to the cooperative and did not interfere in its operation. Accordingly, full responsibility for the management of the Fund rested with the cooperative. Thus, in principle the funds provided became the property of the cooperative as Ministry B from the outset had not intention of interfering in the Revolving Fund's operation. Ministry B only reported the initial expenditure on the Revolving Fund and did not report the Revolving Fund as an asset in its Balance Sheet.

c. A State Ministry/Institution extends Revolving Fund financing to the public, which then repays the loans to the State Ministry/Institution in question. The funds are then recycled by the State Ministry/Institution. Management of the Revolving Fund rests entirely with the State Ministry/Institution, although the Fund is not reported as an asset in the State Ministry/Institution's financial statements.

   Example: In 2006, Ministry C extended Revolving Fund financing worth Rp 70 billion to cooperatives. One of the beneficiaries was the Mandiri Cooperative located in Timur Baratdaya District, which had 150 members and received a total of Rp 150 million. The cooperative then extended loans up to a maximum of Rp 5 million to its members at an interest rate of 12% per annum, repayable within 2 year. The cooperative members were required to repay the loans to the cooperative based on the Fund rules and regulations, with the repayment received then being recycled to other members.

Ministry C extended the Revolving Fund financing through Bank Kemakmuran, which acted as executing agency, with the funds being transferred by Ministry C from the State Treasury to Ministry C’s account with Bank Kemakmuran. In accordance with the agreement between Ministry C and Bank Kemakmuran, the bank was responsible for selecting the beneficiaries, extending the loans and recovering the loans, and for all default risks. In consideration of this, the bank was to receive 7% of the interest income arising on the loans, with the other 5% going to the Ministry.

Bank Kemakmuran was required to periodically report on the Revolving Fund balance to Ministry C, which was then recorded by the Ministry but not reported in its financial statements.

d. A State Ministry/Institution extends Revolving Fund financing, with or without interest to beneficiaries. The loans are then recovered from the beneficiaries and directly paid by the State Ministry/Institution into the General State Treasury Account. At the end of the year, all of the loans should have been recovered from the public.

Besides the wide variation in Revolving Fund management patterns, since 2007 the management of funds perceived as Revolving Funds may be undertaken by three institutions, namely:

1) Ordinary Line Units

An Ordinary Line Unit is a Central/Local Government Line Unit that manages Central/Local Government funds in accordance with the provisions of the Central/Local Government budget. The characteristics of an Ordinary Line Unit are as follows: the Line Unit must pay revenues received as quickly as possible into the General State Treasury Account/Local Government Treasury Account and is generally prohibited from managing cash.

In case the revolving fund is managed by the Line Unit, it withdraws the cash from the General State Treasury Account/Local Government Treasury Account, with or without an intermediary, and then channels the cash to the public. The Line Unit eventually recovers these funds from the public and pays them directly into the General State Treasury Account/Local Government Treasury Account. At the end of the fiscal year, the Line Unit should not have a cash balance. If the funds in question are intended to be recycled to the public, the Line Unit must state this in its budgeting and budget implementation documents (DIPA/DPA).

In line with the above description, the funds to be recycled by an Ordinary Line Unit do not possess the characteristics of a Revolving Fund, as explained in Chapter II. Rather, the said funds should more appropriately be classified as accounts receivable, and outlays in respect of such funds are allocated as Financing Expenditures. As a consequence of the extending of such financing, the Line Units managing such funds, in accordance with the provisions of the laws and regulations in effect, are subordinate to the General State Treasurer/General Local Government

Treasurer. As part of the implementation process, the General State Treasurer/General Local Government Treasurer may designate an authorized officer (KPA) in the State Ministry/Institution or Local Government Line Unit concerned to manage the disbursement of the funds. The accounting treatment of funds managed in this way is described in Chapter IV.

(2) Line Unit Implementing Central/Local Government Public Service Body (BLU/BLUD) Financial Management

Central/Local Government Public Service Body is a Line Unit in a State Ministry/Institution or Local Government that is accorded special flexibility in financial management under articles 68 and 69 of the State Treasury Act 2004 (No. 1 of 2004), as further provided for by Government Regulation No. 23 of 2005 on the financial management of Public Service Bodies, and Minister of Home Affairs Regulation No. 61 of 2007 on guidelines for the financial management of Public Service Bodies. In accordance with these provisions, Public Service Bodies are permitted to directly manage revenues without first depositing them into the General State Treasury or Local Government Treasury, and are also permitted to undertake cash management functions.

If a Revolving Fund is managed by a Central/Local Government Public Service Body, the Public Service Body draws the funds down from the General State Treasury/Local Government Treasury account, with or without an intermediary, for disbursement to the public. The funds are then recovered from the public and recycled without having to go through the DIPA/DPA process. Public Service Bodies are authorized to manage cash arising from the Central/Local Government Budget and from the repayment of Revolving Fund loans.

As an Ordinary Line Unit suffers from a number of weaknesses in the management of funds that are to be extended to the public on a revolving basis, the Public Service Body structure is better suited to the administration of Revolving Funds and in encouraging a better performance on the part of such Funds.

(3) Institutions other than government Line Units

Central/Local Government may also employ other institutions, besides government Line Units, to manage Revolving Funds, such as Central/Local Government Enterprises operating in the financing field. In such cases, government extends the funds to the institution for management based on a revolving scheme. The funds continue to belong to the government, which conducts regular monitoring of their utilization and reports them in its financial statements as a Revolving Fund. The government investment in the fund is allocated as a Financing Expenditure. However, the precise details of how such funds are to be managed by institutions external to the government is beyond the scope of this Technical Bulletin.

4. Variation in Budgetary Allocations to Revolving Funds

Currently, budgetary allocations to Revolving Funds are treated as Social Assistance, Subsidies, Grants and Other Non-Physical Capital Expenditure. However, these budgetary allocations are inappropriate for the following reasons:

a. Social Assistance Expenditure

Government Regulation No. 21 of 2005 on State Ministry/Institution Work Plans and Budgets provides that Social Assistance Expenditure represents the transfer of funds or goods to the public for the purpose of preventing the emergence of social risks. Furthermore, Government Regulation No. 58 of 2005 on Local Government financial management states that social assistance expenditure consists of non-recurring and selective outlays in the form of transfers of funds/goods to the public for the purpose of improving public welfare.

In addition, by its nature social assistance expenditure does not produce assets for the government. If the government provides funding for social assistance expenditure, no asset acquisitions will be recorded.

Given the above, investments in Revolving Funds should not be categorized as social assistance expenditure as the characteristics of social assistance expenditure are as follows:

- It is not incurred for the purpose of acquiring new government assets;
- It is intended to overcome social problems, such as social-assistance expenditure on education, religious affairs and disaster relief.
- It is non-recurring and selective in nature.

In the light of these characteristics, a State Ministry/Institution or Local Government Line Unit that operates a Revolving Fund program and allocates this as Social Assistance Expenditure will not recognize the

Revolving Fund as an asset, despite the fact that the Revolving Fund exists and may be of significant value.

b. Subsidy Expenditure

Government Regulation No. 21 of 2005 on State Ministry/Institution Work Plans and Budgets provides that Subsidy Expenditure consists of budgetary allocations provided to enterprises/institutions that produce, sell, export or import goods and services that are essential to the wellbeing of the public for the purpose of ensuring they are affordable to the public. Subsidy Expenditure in the case of a Revolving Fund normally involves the subsidizing of loan interest charged by the banking sector so as to keep it below the prevailing market rates.

c. Grant Expenditure

Government Regulation No. 21 of 2005 on State Ministry/Institution Work Plans and Budgets provides that Grant Expenditure represents non-mandatory, routine/capital transfers to other countries and/or international organizations. Furthermore, Government Regulation No. 58 of 2005 on Local Government Financial Management states that grants may be made for the purpose of financing transfers to government or other governments, Local Government

Business Enterprises, the public and community organizations, where the purposes of such grants are specifically stated, and where such grants are non-mandatory, non-binding and non-recurring in nature.

d. Other Non-Physical Capital Expenditure

Government Regulation No. 21 of 2005 on State Ministry/Institution Work Plans and Budgets provides that Capital Expenditure is expenditure on capital formation in the form of Land, Equipment and Machinery, Buildings and Properties Road, Irrigation and Transmission Networks, and other physical forms, such as books, animals and other assets. Other Non-Physical Capital Expenditure consists of expenditure on capital formation in the form of physical assets such as books, animals, and other assets not covered by Land, Equipment and Machinery, Buildings and Properties and Road, Irrigation and Transmission Networks.

Based on this definition, it is inappropriate to classify investment in a Revolving Fund as Other Non-Physical Capital Expenditure as the Revolving Fund does not constitute an asset produced by Capital Expenditure (in the form of Land, Equipment and Machinery, Buildings and Properties, or Road, Irrigation and Transmission Networks), but rather represents part of Long-Term Investments.

5. Lack of Clarity of Accounting and Reporting Entities Managing the Revolving Funds

A significant constraint in the reporting of Revolving Funds arises from a lack of clarity regarding accounting and reporting entities which manages the Revolving Funds. The reasons for this are as follows:

- The responsibility of government institutions frequently ends as soon as they have channeled the Revolving Fund (for the first time).

- Government institutions responsible for the Revolving Fund budget frequently perceive an investment in a Revolving Fund as a one-off event that does not produce an asset. As a consequence, they feel that they do not need to account for the Revolving Fund.

- Revolving Funds are frequently managed solely by institutions external to government.

6. The accounting treatment and reporting of Revolving Funds are frequently not in line with the principles of state financial management and the Government Accounting Standards.

Article 2 of the State Finances Act 2003 (No. 17 of 2003) provides that the scope of state financial management extends to assets acquired using state facilities. Thus, a Revolving Fund established by government, whether recycled or controlled by the public, must be managed in accordance with the rules governing the management of the state finances, and Revolving Fund outlays and assets must be reported in the government financial statements.

Article 16(c) of Government Regulation No. 24 of 2005 on Government Accounting Standard No. 06 (Accounting for Investments) provides that Funds appropriated by the government in the framework of public services such as revolving fund aid to a community group shall be treated as Non-Permanent Long-Term Investments, which article 21 of the same Government Regulation states that disbursements to acquire long-term investments shall be treated as Financing Expenditure.

C. Legal Basis and Objectives of this Technical Bulletin

The publication of this Technical Bulletin is based on Government Regulation No. 24 of 2005 on the Government Accounting Standards, having regard to the primary and secondary legislation governing Revolving Funds, financing, and non-tax state revenues, including:

- The Non-Tax State Revenues Act 1997 (No. 20 of 1997);
- The State Finances Act 2003 (No. 17 of 2003);
- The State Treasury Act 2004 (No. 1 of 2004);
- Government Regulation No. 20 of 2004 on Government Work Plans;
- Government Regulation No. 21 of 2004 on State Ministry/Institution Work Plans and Budgets.

This Technical Bulletin is intended to serve as a manual for Central/Local Government in accounting for and reporting on Revolving Funds, and to also serve as a reference for Central/Local Government agencies responsible for the financial management of Public Service Bodies in the context of accounting and reporting the consolidated financial statements of State Ministries/Institutions and Local Governments.

CHAPTER II

REVOLVING FUND DEFINITION AND MECHANISMS

A. Definition of Revolving Fund

A Revolving Fund consists of funds that are lent and managed in a revolving way to the public by a Budget Controller or authorized officer for the purpose of strengthening the people economy and other purposes. The characteristics of a Revolving Fund are as follows:

1. A Revolving Fund constitutes part of the Central/Local Government finances.

   A Revolving Fund may be financed by the Central/Local Government Budget or by non-budgetary sources, such as the public or overseas grants. Under the State Finances Act 2003 (No. 17 of 2003), a Revolving Fund that is financed by non-budgetary sources shall be recognized as a Central/Local Government asset if the funds in question have been provided and/or received in the name of the Central/Local Government.

   For example, in 2007 as part of its corporate social responsibility program, state business enterprise XYZ made a donation of Rp 10 billion to the Local

Government in whose area it operates for the purpose of encouraging the development of SMEs based on a Revolving Fund scheme.

In this case, the Rp 10 billion received by Local Government A forms part of the Local Government’s finances as it was provided by State Business Enterprise XYZ.

2. A Revolving Fund is recorded in the Central/Local Government budget and/or financial statements.

   Under the State Treasury Act 2004 (No. 1 of 2004), all Central/Local Government expenditures must be included in the Central/Local Government budget. Accordingly, an appropriation for a Revolving Fund must be included in the Central/Local Government budget, or any subsequent revisions thereto.

3. A Revolving Fund must be vested in and/or controlled by the Budget Controller or his authorized officer.

   The definition of “vested in and/or controlled” in the context is broad, and means that the Budget Controller or his authorized officer has ownership rights over the funds. Meanwhile, by “control” is meant that the Controller or his authorized officer is responsible for conducting supervision and monitoring, and providing guidance, in respect of the Revolving Fund's use.

4. A Revolving Fund consists of funds that are extended to the public, recovered from the public, with or without the accrual of added value, and then revolved to the public on a continuous basis.

5. Government has the right to recover Revolving Fund loans.

   Funds extended to the public under a Revolving Fund scheme are recoverable by the State Ministry/Institution in question, whether as part of the termination of the scheme or for revolving to new beneficiaries.

Example of a Revolving Fund: Agency A in Ministry ABC operates an SME empowerment program. In fiscal 2007, Agency A secured a National Budget appropriation amounting to Rp 50 billion to help provide small traders with capital. The criteria for selecting the small traders were determined by the Agency. As part of the program, Agency A extended soft loans worth a maximum of Rp 50 million to each trader/traders' associations. The loans were repayable over a maximum of 2 years and carried an interest rate of 15% per year. The traders/traders’ associations were required to repay the funds based on their agreements with Agency A, with the repaid funds then being revolved to other traders/traders’ associations, and so forth. The Revolving Fund was managed by Agency A, and accounted for as a government asset in the Balance Sheets of Agency A and Ministry ABC.

B. Revolving Fund Mechanism

Revolving Fund turn-over is extended by a Central/Local Government Line Unit using the following mechanism:

1. The Line Unit in question secures an appropriation from the Central/Local Government Budget, which is set out in the budget implementation documents (DIPA/DPA)

2. The Line Unit submits a request for disbursement of the funds to the Central/Local Government Treasury.

3. The funds may be disbursed through a bank, non-bank financial institution, cooperative, venture capital provider and so forth. These institutions can play the role of executing agency or channeling agency, depending on the agreement they have entered into with the government. Should the institution function as an

executing agency, it will be responsible for selecting and determining the beneficiaries of the Revolving Fund, channeling and recovering the loans, and bearing the risks associated with default. Meanwhile, if the institution functions as a channeling agency, it will only be responsible for channeling the funds to the intended beneficiaries and will not be involved in selecting the beneficiaries.

4. The loans provided to beneficiaries must be repaid by the benefeciaries(members of the public/associations) to the Line Unit, either directly or through an intermediary.

5. The Line Unit responsible for managing the Revolving Fund exercises control over the recovery of the loans extended to the public and the revolving of the funds to new beneficiaries, and is responsible for reporting on and accounting for the Revolving Fund.

CHAPTER III

ACCOUNTING TREATMENT AND REPORTING OF REVOLVING FUNDS

The State Treasury Act 2004 (No. 1 of 2004) requires every Budget Controller or his authorized officer to maintain accounts of financial transactions and prepare financial statements. Thus, the Minister of Finance, as the General State Treasurer, and the head of a Local Government Financial Management Line Unit, as the Local Government Treasurer, are required to maintain accounts and prepare a cash-flow statement that contains information on inflows and outflows of cash to and from the Central/Local Government General Treasury Account. To accommodate this need, the Central/Local Government needs to develop a Government Accounting System that consists of a minimum of 2 accounting subsystems, namely, an agency accounting system (accounting at the Budget Controller/authorized officer level), and a cash accounting system for the Central/Local Government Treasury.

An agency accounting system is an accounting system that records transactions undertaken by the Budget Controller/Authorized Officer for the purpose of preparing a Budget Realization Statement and a Balance Sheet. This also applies in the case of Budget Controllers/Authorized Officers responsible for controlling financing transactions that required to be managed by the Budget Controllers/Authorized Officers themselves. Meanwhile, a Central/Local Government cash accounting system refers to an accounting system that records receipts and expenditures to and from the Central/Local Government Treasury. The Central/Local Government cash accounting system provides the basis for the production of a Cash flow statement. The central/local government accounting reports, which consist of Budget Realization Statement, Balance Sheet, Cash-Flow Statement, and Notes to the Financial Statements, are produced from the budget controller accounting system, combined with that statement of cash-flow as produced by the Central/Local Government General Treasurer.

A. Budgetary Accounting for Revolving Funds

One of the financial statements produced by a government agency is the Budget Realization Statement, which contains information on the realization of revenue and expenditure compared with budget appropriations for a particular period. A Budget Realization Statement is a statutory report, or what is often also referred to as a budgetary report. For the purpose of preparing a budget realization statement, the Government Accounting System must permit budgetary accounting (budgetary report), which is only found in agency accounting systems that are the responsibility of Budget Controllers/Authorized Officers. Budgetary accounting includes budgetary accounting for revenue, expenditure, financing receipts and financing expenditure. The relevant budgetary accounting journal entries will appear as follows:

Budget Revenue Accounting:

Estimated Revenue	Rp XXX	
Liabilities to		
Central/Local Government Treasury		Rp XXX
(for recording revenue budget appropriations)		

Budget Expenditure Accouning:

Accounts Payable to		
Central/Local Government Treasury	Rp XXX	
Expenditure Allotments		Rp XXX
(for recording budget expenditure allotments)		

Budget Financing Receipts Accounting:

Estimated Financing Receipts Rp XXX Payables to Central/Local Government Treasury Rp XXX (for recording budget financing receipts)

Budget Financing Expenditure Accounting:

Accounts Receivable from Central/Local Government Treasury Rp XXX Financing Expenditure Allotment Rp XXX (for recording budget financing expenditure allotments)

The budgetary accounting system is only applied in the Central/Local Government agencies, while the Central/Local Government cash accounting system does not employ budgetary accounting as budgetary allocations have no influence over cash balances in the Central/Local Government Treasury.

Government Regulation No. 24 of 2005 on Government Accounting Standard No. 6 (Accounting for Investments) provides in paragraph 16(c) that Funds appropriated by the government in the framework of public services such as revolving fund aid to a community group are to be treated as non-permanent investments. Furthermore, article 21 of this Government Regulation provides that budget expenditures for acquiring of long-term investments shall be treated as financing expenditure. As a consequence, government must recognize investment in a Revolving Fund as financing expenditure both in the budget documents, budget implementation documents and government financial statements. Government must also record the acquisition of an asset in the form of a Revolving Fund in the amount of acquisition value or the amount of financing expended.

In accordance with the characteristics of Revolving Funds, the channeling of loans to beneficiaries should best be carried out by Line Units responsible for the financial management of Central/Local Government Public Service Bodies as these are permitted to manage cash in such a way that loan installments that have been paid can be revolved directly without having to be paid into the Central/Local Government Treasury. Such a Central/Local Government Public Service Body must be a subordinate to the Central/Local Government General Treasurer, as financing transactions, under the State Finances Act 2003 (No. 17 of 2003), are transactions that are controlled by the Central/Local Government General Treasurer. For the purpose of improving the management of a Revolving Fund, a Budget Controller may be assigned in the relevant State Ministry/Institution or Local Government Line Unit. The said Budget Controller shall then function as an accounting entity that is responsible for periodically submitted financial reports to the Central/Local Government General Treasurer. The Budget Controller also has the function of assisting in the synchronization of State Ministry/Institution or Local Government programs that use funds provided by government.

Under Government Regulation No. 23 of 2005 on the financial management of Public Service Bodies, a Central/Local Government Public Service Body is required to apply an accounting system that accords with the Financial Accounting Standards issued by the Indonesian Association of Accountants. However, for the purpose of consolidation with the financial statements of the relevant State Ministry/Institution or Local Government, a Public Service Body is also required to prepare and present financial statements that accord with the requirements of the Government Accounting Standards. Consequently, the rules governing the accounting treatment of Revolving Funds set out in this Technical Bulletin are for the purpose of preparing financial statements for the purpose of consolidation with the State Ministry/Institution or Local Government's financial statements.

The recording of budgetary allocations for Revolving Fund expenditures is carried out in the following way:

Agency/Local Government Line Unit Accounting System:

Accounts receivable from Central/Local Government General Treasurer	Rp XXX	
Revolving Fund Financing Expenditure Allotment		Rp XXX
(for recording budgetary expenditure allocations to Revolving Fund)		

The Central/Local Government General Treasury Accounting System does not record budgetary transactions as budgetary allocations do not influence the balance in the Central/Local Government Treasury Account.

Example: The Government of Tapsel District allocated Rp 5 billion in financing for a Revolving Fund under the Public Service Body Budget Implementation Document (DPA) for fiscal 2007. The aid funds were intended to be used for strengthening the capital base of SMEs and cooperatives. In this case, the 2007 Revolving Fund budget expenditure journal entry will be as follows:

Agency Accounting System:

Accounts Receivable from Local Government Treasury	Rp 5 billion	
Revolving Fund Financing Expenditure Allotment		Rp 5 billion
(for recording expenditure budget allocation to Revolving Fund)		

The Local Government cash-accounting system will not record the budgetary allocation for the Revolving Fund as it has no influence on the Local Government’s treasury balance.

B. Accounting for Realization of Appropriations from Central/Local Government Budget

As described earlier, the allocation of budgetary funds to a Revolving Fund comes within the authority of the Central/Local Government General Treasurer. However, in practice such authority may be delegated to a State Ministry/Institution or Local Government Line Unit. Notwithstanding the delegation of such authority, Revolving Fund transactions continue to be treated as financing transactions.

Expenditure realization on a Revolving Fund is recorded after a definitive disbursement has been made from the Central/Local Government General Treasury Account, as evidenced by the issuance of an SPM LS/SP2D LS or other document of equivalent status under the legislation.

The journal entries for recording expenditure realization on a Revolving Fund shall appear as follows:

Agency/Local Government Line Unit Accounting System:

Financing Expenditure – Revolving Fund	XXX	
Accounts Receivable from Central/Local Government General Treasurer		XXX
(for recording expenditure realization on Revolving Fund)		

and

Revolving Fund	XXX	
Fund Equity -Investment disposal		XXX
(for recording acquisition/realization of Revolving Fund)		

Central/Local Government General Treasury Accounting System:

Financing Expenditure – Revolving Fund	XXX
Cash in Central/Local Government Treasury	XXX
(for recording disbursements for Revolving Fund from Central/Local Government Treasury)	

Example: Under the 2007 national budget, Rp 150 billion was allocated to finance a Revolving Fund. The fund will be managed by Public Service Body A at Ministry A. In 2007, the funds were channeled to the beneficiaries under SPM LS/SP2D LS documents.

The journal entry recording the expenditure on the Revolving Fund will appear as follows:

Agency/Local Government Line Unit Accounting System:

Financing Expenditure-Revolving Fund	Rp 150 billion	
Accounts receivable from General State Treasurer		Rp 150 billion
(for recording expenditure realization on Revolving Fund)		

The above financing expenditure produces an asset in the form of the Revolving Fund, which forms part of Non-Permanent Long-Term Investment and is recorded at acquisition value, that is, the amount of funds in circulation. The journal entry recording the Revolving Fund will appear as follows:

Agency/Local Government Line Unit Accounting System:

Revolving Fund	Rp 150 billion	
Fund Equity - Investment Disposal		Rp 150 billion
(for recording acquisition of asset in form of Revolving Fund)		

Central Government Treasury Accounting System:

Financing Expenditure – Revolving Fund	Rp 150 billion	
Cash in Central Government Treasury		Rp 150 billion
(for recording expenditure on Revolving Fund from Central Government Treasury)		

C. Accounting Treatment and Reporting of Recovery of Revolving Fund Loans

One of the characteristics of a Revolving Fund is that loans are channeled to the public and are then repaid to the Line Unit responsible for managing the Revolving Fund. Consequently, the said Line Unit is expected to recover the loans extended to the public.

The loans extended to the public may be repaid by installment or in a lump sum. The monies recovered from the public consist of two elements – principal and income. Income may consist of interest or a share of profits.

The amount of the principal repaid by beneficiaries consists of the total amount of the loan divided by the number of time allowed for repayment, while the amount of income received by the Line Unit will be the equivalent of the interest or share of profits payable under the loan agreement.

The accounting treatment for principal installments and income arising from a Revolving Fund differ. Thus, when the Management Line Unit receives payments from the public, it must differentiate these as between repayments of principal and interest payments.

The receipt of principal repayments is not recorded and reported in the financial statements for consolidation to the State Ministry/Institution or Local Government level, as the case may be, as the Revolving Funds managed by the Line Unit in question have already been reported in the Budget User financial statements at the time they are transferred to the management Line Units account. It is therefore sufficient to disclose the transaction in the Notes to the Financial Statements. The said receipt of Revolving Fund principal repayments is reported in the financial statements based on the Financial Accounting Standards.

The Central/Local Government Treasurer may reclaim Revolving Fund principal managed by a Revolving Fund Management Line Unit. Should this occur, or Revolving Fund principal is paid into Central/Local Government Treasury, the Revolving Fund Management Line Unit must record and report such transactions in its financial statements for the purpose of consolidation in accordance with the Government Accounting Standards. Such reclaiming/repayment of Revolving Fund principal will be recorded as a Financing Receipt in the Budget Realization Statement, and a reduction in the amount of the revolving fund account on the Balance Sheet. The accounting treatment in that case is as shown below:

Agency/Local Government Line Unit Accounting System:

Debt to Central/Local Government Treasury	XXX	
Financing Receipt-Revolving Fund		XXX
(for recording repayments of Revolving Fund principal)		

and

Fund Equity - Investments Disposal	XXX	
Revolving Fund		XXX
(for recording decline in revolving funds balance due to repayment of Revolving Fund principal)		

Central/Local Government Treasury Accounting System

Cash at Central/Local Government Public Service Body	XXX	
Financing Receipts-Revolving Fund		XXX
(for recording repayments of Revolving Fund principal)		

Income received by the Revolving Fund Management Line Unit in the form of interest and profit-sharing is reported in the financial statement for the purpose of consolidation with the accounts of the State Ministry/Institution/Local Government in accordance with the Government Accounting Standards, namely, in the Budget Realization Statement. The accounting treatment of income from Revolving Funds is as follows:

<u>Agency/Local Government Line Unit Accounting System</u>

Accounting for income from Revolving Fund:

Debt to Central/Local Government Treasury	Rp XXX	
Income		Rp XXX
(*for recording income from Revolving Fund*)		

And

Cash at Central Government Public Service Body	Rp.XXX	
Fund Equity - Current		Rp.XXX
(*for recording cash receipts from Revolving Fund customer*)		

Central/Local Government Treasury Accounting System

Accounting for receipt of income from Revolving Fund

Cash and Central/Local government Public Service Body	Rp XXX	
Income		Rp XXX
(*For recording income received from Revolving Fund*)		

In accordance with the legislative provisions governing the financial management of Central/Local Government Public Service Bodies, cash received from principal installments and income can be managed directly by the Central/Local Government Public Service Body without to first be paid into the Central/Local Government Treasury. For the purpose of validating the payments received in the Central/Local Government Treasury, the Central/Local Government Public Service Body is required to periodically submit Payment Order Validations (SPM Pengesahan) to the Central/Local Government General Treasurer, who then issues Fund Disbursement Order Validations (SP2D Pengesahan).

D. Accounting for Recycling of Funds

When a Central/Local Government Public Service Body recovers funds that have been channeled to the public, the said funds, in the form of principal and income (interest, share of profits, etc.) are not paid into the Central/Local Government Treasury, but rather have to be directly managed by the Central/Local Government Public Service Body. Repayments of principal received from beneficiaries may then be recycled to new beneficiaries, while income (interest, share of profits, etc.) can be used to cover operational expenses and/or recycled to the public. If income from a Revolving Fund is recycled to new beneficiaries, this will obviously increase the size of the Revolving Fund.

There are three sources of funds that can be recycled by the Central/Local Government Public Service Body, namely, Special budget allocation (DIPA)funds that do not form part of the Public Service Body’s Revolving Fund budget, principal installments paid by beneficiaries, and Revolving Fund income (interest, share of profits, etc.).

a. DIPA Funds outside of Public Service Body’s Revolving Fund budget

Budget allocations may be made for a Revolving Fund from Budget Sections other than the Public Service Body’s Revolving Fund Budget Section. Should this be the case, the use of such budgetary funding and assets for the Revolving Fund will be recorded by the Budget Section that controls the budget in question. Meanwhile, for the purpose of consolidating the Public Service Body’s financial statements with those of the relevant State Ministry/Institution or Local Government based on the Government Accounting Standards, the Public Service Body shall not record and report the use of the budgetary funding and assets so acquired. However, these will be recorded in the accounting system based on Financial Accounting Standards.

Example: In 2008, a Public Service Body under the Ministry of Public Works received a budget allocation of Rp 20 billion under the DIPA for the State Capital Participation Budget Section (BA 99). The Public Service Body used the said funds to finance a Revolving Fund designed to free/acquire land for infrastructure development. The journal entry to record this transaction will appear as follows:

Accounting in the State Capital Participation Budget Section (BA 99)

Financing Expenditure-Revolving Fund	Rp 20 billion
Accounts receivable	
from Central Government Treasury	Rp 20 billion
(*for recording financing expenditure for Revolving Fund*)	

Meanwhile, the journal entry to record the Long-Term Investment fund in the form of the Revolving Fund will be as follows:

Revolving Fund	Rp 20 billion
Fund Equity - Investments Disposal	Rp 20 billion
(*to record the additional Revolving Fund*)	

Central/Local Government Treasury Accounting System

Financing Expenditure-Revolving Fund	Rp 20 billion
Cash in Central Government Treasury	Rp 20 billion
(*for recording cash expenditure on Revolving Fund*)	

The Central Government Treasury accounting system does not record the acquisition of the Revolving Fund asset as it only records cash receipts and expenditures in the Central Government General Treasury Account.

<u>Accounting Treatment in Public Service Body Agencies</u>

There is no journal entry recording budgetary expenditure for a Revolving Fund and assets in the form of a Revolving Fund as such expenditures have already been recorded as an outlay/realization of special budget of BA 99.

A Revolving Fund managed by a Central/Local Government Public Service Body that is financed by the Central/Local Government budget is not recorded and reported in the accounting and reporting system for consolidation with the financial statements of the State Ministry/Institution or Local Government, but rather is recorded by the

Central/Local Government Public Service Body based on the Financial Accounting Standards.

The Central/Local Government Public Service Body may channel the funds received from the Central/Local Government budget to the public in the current fiscal year or in different fiscal years. The fund circulation as operated by the Central/Local Government Public Service Body will not be reported by the Budget Section responsible for managing the Revolving Fund or by the Central/Local Government Public Service Body in its financial statements based on the Government Accounting Standards. Rather, the Central/Local Government Public Service Body will report Revolving Fund transactions in its financial statements based on Financial Accounting Standards.

Example: Of the Rp 20 billion received by a Public Service Body Line Unit from BA 99 in 2008, the Line Unit in the same year channeled Rp 15 billion to the public. So, what is the accounting and reporting treatment of this Rp 15 billion?

Answer: The Revolving Fund expenditure undertaken by the Public Service Body and the asset in the form of the Revolving Fund are not recorded and reported by either BA 99 or the Public Service Body Line Unit as they were already recorded and reported by BA 99 when the funds were realized in the national budget. The Public Service Body Line Unit conducts recording and reporting in the accounting system based on Financial Accounting Standards. Consequently, the Central Government Treasury accounting system does not record and report such transactions either.

b. Revolving fund principal repayments

A Central/Local Government Public Service Body can recover Revolving Fund loans when they mature. These principal repayments are managed directly by the Public Service Body without having to first pay them into the Central/Local Government Treasury, and can be recycled in the form of further loans to the public.

The recycling of funds obtained from principal repayments and the asset in the form of the Revolving Fund are not recorded and reported by the Line Unit managing the Revolving Fund or by the Central/Local Government Public Service Body as they were already recorded and reported by the responsible State Ministry/Institution or Local Government Line Unit when the funds were realized in the Central/Local Government budget. The Public Service Body Line Unit conducts recording and reporting in the accounting system based on Financial Accounting Standards.

Example: Local Government Technical Implementation Unit (UPTD) A, which has the status of a Local Government Public Service Body under the Local Government General Treasurer for the Province of North Sumatra, is responsible for channeling funds to SMEs and Cooperatives based on a Revolving Fund scheme. The said Local Government Public Service Body recovered Revolving Fund loans amounting to Rp 1 billion in 2008. In the same year it recycled the recovered funds to other SMEs and cooperatives. So, what is the accounting and reporting treatment in respect of the said Rp 1 billion?

Answer: The recycling of the repaid principal by UPTD A will not be recorded and reported by the Local Government Financial Management Unit (BPKD)(which from the budget perspective is in charge of the Revolving Fund) or by UPTD A, as the Revolving Fund disbursements and the asset in the form of the Revolving Fund were already recorded and reported by the BPKD when the funds were realized in the Local Government Budget. The Local Government Treasury accounting system also does not record and report these transactions which have no influence of the Local Government cash balance.

The UPTD records and reports the transactions in the accounting system based on the Financial Accounting Standards.

c. Revolving Fund Income

Revolving Fund loans may be subject to interest or profit sharing based on the loan agreements or rules governing the loans. Such income arising from the operation of a Revolving Fund can be managed directly by a Central/Local Government Public Service Body and can be used both to cover the operating expenses of the Public Service Body and to be recycled to the public. If the said income is recycled to the public, the size of the Revolving Fund managed by the Line Unit will increase.

The Public Service Body records income when it is received in the Revolving Fund, and it is consolidated in the financial statements of the State Ministry/Institution or Local Government. Income that is recycled to new beneficiaries is recorded and reported in the financial statements of the Public Service Body for consolidation in the financial statements of the State Ministry/Institution or Local Government. Consequently, budget allocations for the recycling of funds arising from Revolving Fund income must be included in the DIPA/DPA as part of the Financing

Expenditure budget. The realization of Revolving Fund expenditure is recorded by the Public Service Body as Financing Expenditure and as the addition of the Revolving Fund as an asset in the amount of the Financing Expenditure. The financing expenditure will decrease the Current Fund Equity and increase the Revolving Fund balance, the journal entry of which will be as follows:

<u>Agency/Line Unit Accounting System (in Central/Local Government Public Service Body)</u>

Financing Expenditure-Revolving Fund	Rp XXX	
Accounts Receivable from Central Government Treasury		Rp XXX
(for recording Revolving Fund expenditure)		

And

Fund Equity - Current	Rp XXX	
Cash at Public Service Body		Rp XXX
(for recording financing expenditure originating from Public Service Body cash)		

And

Revolving Fund Rp XXX Fund Equity – Long-Term Investments Disposal Rp XXX (for recording Revolving Fund expenditure)

Central/Local Government Treasury Accounting System:

Financing Expenditure-Revolving Fund Rp XXX Cash at Central/Local Government Public Service Body Rp XXX (for recording Revolving Fund expenditure in the Central/Local Government Treasury Accounting System)

Even though no cash is disbursed from the Central/Local Government Treasury for acquiring the Revolving Fund as an asset, the Central/Local Government Treasury accounting system must record the transaction so that it is included in the Central/Local Government Cash-Flow Statement.

Example: Local Government Technical Implementation Unit (UPTD) A, which has the status of a Local Government Public Service Body under the Local Government Financial

Management Unit (BKPD) for the Province of North Sumatra, is responsible for channeling funds to SMEs and Cooperatives based on a Revolving Fund scheme. The said Local Government Public Service Body received Revolving Fund income in the form of interest amounting to Rp 1 billion. In 2008, UPTD A used Rp 400 million of the said income for operational purposes, while the other Rp 600 million was recycled to new beneficiaries and recorded in UPTD A’s Budget Implementation Document (DPA). The operating expenditure was incurred in respect of official travel and the purchase of office requisites. Both the operating expenditure and recycling transactions were undertaken in March 2008. So, how should these transactions be accounted for and reported?

Answer: The interest income of Rp 1 billion will be recorded as income from revolving fund, where the journal entry will be as follows:

<u>Agency/Line Unit Accounting System (Local Government Public Service Body)</u>

Debt to Local Government Treasury	Rp 1 billion
Other Legitimate Local Government Revenue	Rp 1 billion

(for recording income from the Revolving Fund based on the assumption that it is included in Other Legitimate Local Government Revenue)

And

Cash at Public Service Body	Rp 1 billion	
Fund Equity -Current		Rp 1 billion

(*for recording cash receipts originating form Public Service Body income*)

Local Government Treasury Accounting System:

Cash at Public Service Body	Rp 1 billion	
Other Legitimate Local Government Revenue		Rp 1 billion

(for recording income from the Revolving Fund based on the assumption that it is included in Other Legitimate Local Government Revenue)

Even though no cash was received by the Local Government Treasury account from the Revolving Fund, the Local Government Treasury accounting system must record the transaction so that is included in the Local Government Cash-Flow Statement.

The operational expenditure funded by the income received from the Revolving Fund is recorded and reported as Expenditure on Goods and Services in the Public Service Body’s financial statements for the purpose of consolidation with the BPKD’s financial statements. The journal entries to record the said operational expenditure will appear as follows:

<u>Agency/Line Unit Accounting System (Local Government Public Service Body)</u>

Expenditure on Goods and Services	Rp 400 million
Accounts Receivable from Local Government Treasury	Rp 400 mil
(records UPTD operational expenditure financed by Revolving Fund income)	

And

Fund Equity - Current Rp 400 million Cash at Public Service Body Rp 400 million (for recording expenditure funded by local government Public Service Body income)

Local Government Treasury Accounting System:

Expenditure on Goods and Services Rp 400 million Cash at Public Service Body Rp 400 million (records operational expenditure financed by Revolving Fund income)

Even though no cash was expended by the Local Government Treasury Account in respect of the operational expenses, the Local Government Treasury accounting system must record the transaction so that is included in the Local Government Cash-Flow Statement.

The recycling of income from the Revolving Fund to new beneficiaries will be recorded and reported as Financing Expenditure in the financial statements of the Public

Service Body for consolidation with the BPKD’s financial statements. Such expenditure will also result in an increase in the size of the Revolving Fund. The BPKD does not record such financing expenditure and the increase in the size of the Revolving Fund, but such information will be stated in the BPKD’s financial statements when the Public Service Body’s financial statements are consolidated with those produced by the BPKD. The journal entries recording the recycling of the funds and the acquisition of the Revolving Fund as an asset will be as follows:

Agency Accounting System (Local Government Public Service Body):

Financing Expenditure-Revolving Fund	Rp 600 million
Accounts Receivable from Central Govt. Treasury	Rp 600 million
(to record financing expenditure for recycling financed by Public Service Body income)	

And

Fund Equity – Current	Rp 600 million

Cash – Public Service Body Rp 600 million (to record disbursement of Public Service Body income for fund recycling)

The journal entry to record the additional revolving fund.

Revolving Fund Rp 600 million Fund Equity - Investments Disposal Rp 600 million (to record the increase in size of Revolving Fund resulting from Public Service Body income)

<u>Local Government Treasury Accounting System:</u>

Financing Expenditure-Revolving Fund Rp 600 million Cash at Public Service Body Rp 600 million (to record financing expenditure for recycling financed by Public Service Body income)

Even though no cash was expended by the Local Government Treasury Account to increase the size of the Revolving Fund, the Local Government Treasury accounting system must record the transaction so that it is included in the Local Government Cash-Flow Statement.

CHAPTER IV

ACCOUNTING FOR RECEIVABLES PERCEIVED AS REVOLVING FUNDS

A variety of perceptions regarding Revolving Funds exist in State Ministries/Institutions and Local Governments, as described in chapter I. As a consequence, some State Ministries/Institutions and Local Governments apply misplaced definitions of Revolving Funds so that many different types of arrangements providing funds to the public are erroneously categorized as Revolving Funds. In reality, many such arrangements do not satisfy the criteria for Revolving Funds, as described in chapter II, and they should instead by classified as Short-Term or Long-Term Accounts Receivable, depending on the timeframe of the receivable in question. This applies in the case of funds that are intended to be recovered from the public and which then must immediately be paid into the Central/Local Government Treasury. If such funds are to be recycled to the public, the Line Unit will have to make the appropriate allocations in its budget implementation documents. Accordingly, such funds do not satisfy the characteristic of a Revolving Fund as one where loans can be recovered and immediately recycled to the public without having to first be paid into the Central/Local Government Treasury.

If Revolving Funds are channeled by Central/Local Government Public Service Bodies, the receivables described above can be channeled by an ordinary Line Unit. However, such Line Unit must be subordinate to the Central/Local Government General Treasurer as disbursements in respect of these receivables constitute financing transactions under the State Finances Law 2003 (No. 17 of 2003), which provides that transactions of this nature can only be undertaken by the Central/Local Government General Treasurer.

For operational and supervisory purposes, the Central/Local Government General Treasurer may appoint Budget Controllers (KPA) in State Ministries/Institutions and Local Government Line Units. Such Budget Controllers function as accounting entities that are required to submit periodic financial reports to the Central/Local Government General Treasurer, which functions as the reporting entity for the purposes of consolidation. A Budget Controller is also responsible for assisting with the synchronization of State Ministry/Institution or Local Government programs that are funded by government

Should the Central/Local Government General Treasurer appoint a Budget Controller to a State Ministry/Institution or Local Government Line Unit, accounting for funds transactions will be the responsibility of the Budget Controller, while the Central/Local Government General Treasurer acts as the Budget User (PA) for the purpose of consolidating the financial reports received from the Budget Controller. The accounting treatment of funds channeled by a Budget Controller is as follows:

A. Budgetary Accounting

Article 1 of the State Finances Act 2003 (No. 17 of 2003) defines “financing” as every receipt that needs to be repaid and/or outlay that will be recovered, whether in the fiscal year concerned or in subsequent fiscal years. Furthermore, Government Accounting Standard No. 02 (Statement of Budget Realization) states that financing is “any receipt that needs to be repaid and/or disbursements that should be re-received, either during the fiscal year or subsequent fiscal years, which in government budgeting is mainly intended to cover deficits or to make use of budget surplus.” Meanwhile, Government Accounting Standard No. 06 (Accounting for Investments) provides that “investments are assets intended to gain economic benefits such as interest, dividends, and royalties, or social benefits, for improving government capacity in providing services to the public.”

Funding extended to the public by government for the purpose of providing capital or improving economic capacity may be categorized as Receivables,” and differentiated as between Current Assets and Long-Term Investments, depending on the timeframe. Should such a receivable have a timeframe of not more than 12 months, then it will be classified as a Current Asset, while if it has a timeframe of more than 12 months, it will be treated as a long-term investment

The budgetary accounting treatment for disbursements of such funds is as follows:

<u>Budget Controller Accounting System (subordinate to Central/Local Government General Treasurer):</u>

Accounts Receivable from Central		
/Local Government Treasurer	Rp XXX	
Financing Expenditure Allotment (Receivable)		Rp XXX
(records Receivable expenditure budget allocation)		

Central/Local Government Treasury Accounting System

No journal entry is made as there are no implications for the Central/Local Government Treasury balance.

B. Accounting for Budget Realization

The realization of expenditure for funds categorized as receivables is made through the issuance of Payment Orders (SPM) and Disbursement Orders (SP2D). The journal entries recording budget realization will appear as follows:

Agency Accounting System

Financing Expenditure-Receivables	Rp XXX	
Accounts Payable to		
Central/Local Government Treasurer		Rp XXX
(records realization of budget expenditure)		

And

Funds Receivable	Rp XXX	
Fund Equity - Investments Disposal		Rp XXX

(to records acquisition of long-term receivable)

The above journal entries record the acquisition of a receivable with a timeframe of more than 12 months. Should the receivable be short term, with a timeframe of less than 12 months, the relevant journal entries will appear as follows:

Agency Accounting System:

Funds Receivable	Rp XXX	
Fund Equity - Receivables Provision		Rp XXX
(records acquisition of short-term receivable)		

Central/Local Government Treasury Accounting System:

Financing Expenditure	Rp XXX	
Cash in the Central/Local Government Treasury		Rp XXX
(records acquisition of receivable)		

The Central/Local Government Treasury accounts do not record the acquisition of a receivable in the form of Funds Receivable as they only record cash inflows and outflows to and from the Central/Local Government Treasury.

C. Accounting for Recovered Funds

The channeling of funds by an ordinary Line Unit does not satisfy the criteria for a Revolving Fund as the funds in question cannot be recycled directly to the public. Rather, they must first be paid into the Central/Local Government Treasury, and stated in the Work Plan and Budget (RKA) and budget implementation documents (DIPA/DPA) before being recycled.

In such a case, funds recovered from the public must be immediately paid into the Central/Local Government Treasury using the relevant payment documents. The journal entries recording the recovery of Funds Receivable will appear as follows:

Agency Accounting System:

Debt to Central/Local Government Treasury	Rp XXX

Financing Receipt	Rp XXX
(records recovery of receivable)	

And

Funf Equity – Investment Disposal	Rp XXX	
Funds Receivable		Rp XXX
(records reduction in Long-Term Funds Receivable as a result of recovery)		

Central/Local Government Treasury Accounting System

Cash in the Central/Local Government Treasury	Rp XXX	
Financing Receipt		Rp XXX
(records cash receipt upon recovery of receivable)		

CHAPTER V

PRESENTATION AND DISCLOSURE OF REVOLVING FUNDS

A. Presentation of Revolving Funds

Revolving Fund disbursements are recognized as Financing Expenditure in the Budget Realization Statement and Cash-Flow Statement, and are recorded in the amount of the cash expended for the purpose of acquiring the Revolving Fund.

A Revolving Fund is presented in the Balance Sheet as Long-Term Investments-Non-Permanent Investments-Revolving Fund. At the time when the Revolving Fund is established, it is based on its acquisition value (the amount invested in the fund). However, the State Ministry/Institution or Local Government needs to make periodic adjustments so as to ensure that the value of the Revolving Fund as recorded in the Balance Sheet reflects its net realizable value. This value can be ascertained if the Revolving Fund Management Unit administers the Fund based on an aging schedule, which will reveal the extent of non-recoverable and recoverable loans.

The presentation of the net realizable value of a Revolving Fund in the Balance Sheet is based on the deduction of Estimated Doubtful Accounts Receivable from the inception value of the Revolving Fund, plus income from the Revolving Fund. Doubtful Accounts Receivable represents the value of loans that are incapable of being recovered and where recovery is in doubt. Non-performing loans may be written off if there is not further hope of recovering them, while the procedures for the making of such write-downs are governed by the prevailing regulations. The contra account to Doubtful Accounts Receivable is Fund Equity – Investment Disposals.

B. Disclosure of Revolving Funds

Besides recording expenditure on a Revolving Fund as Financing Expenditure in the Budget Realization Statement and Cash-Flow Statement, and as Revolving Fund in the Balance Sheet, other information also needs to be disclosed in the Notes to the Financial Statements, including:

- The valuation basis for the Revolving Fund;
- The amount of unrecovered loans and the reasons for non-recovery;
- The interest rates charged;

- The Revolving Fund’s opening balance, increases/decreases in the size of the Revolving Fund, and the Revolving Fund’s closing balance;

- Information on due dates based on the age of Fund loans.

In order to facilitate readers of the Notes to the Financial Statements, such information may be presented in narrative, table, chart or such other forms as may be beneficial.

CHAPTER VI

CONCLUSIONS

For the purpose of providing capital to SMEs, cooperatives and other sectors, since 2000 the government has been operating Revolving Funds through the State Ministry of Cooperatives and SMEs. The use of Revolving Funds has since spread to various other State Ministries/Institutions. To date, the management of Revolving Funds has been based on a number of different patterns, including the following:

1. Funds are channeled by the State Ministry/Institution in question to the public and are then loaned out and recycled by the public. The funds are not returned to the State Ministry/Institution, which only conducts monitoring of the Funds operation.

2. The State Ministry/Institution in question channels funds to the public, and these are then loaned out and recycled by the public. The funds are not returned to the State Ministry/Institution, and the State Ministry/Institution does not conduct any monitoring.

3. Funds are channeled to the public by the State Ministry/Institution in question and are then returned to the State Ministry/Institution for revolving to the

public. However, such transactions are not reported in the State Ministry/Institution’s financial statements.

4. Funds are channeled by the State Ministry/Institution in question to the public. The funds are eventually repaid to the State Ministry/Institution and then paid into the Central Government Treasury so that no more funds are recoverable as per the end of the year.

Budgetary allocation classifications for Revolving Funds also vary, and include Social Assistance, Subsidy, Grant and Other Physical Capital Expenditure. Such allocations are not in accordance with the provisions of the State Finances Act 2003 (No. 17 of 2003), the State Treasury Act 2004 (No. 1 of 2004), Government Regulation No. 20 of 2004 on Government Work Plans, Government Regulation No. 21 of 2004 on State Ministry/Institution Work Plans and Budgets, and Government Regulation No. 24 of 2005 on the Government Accounting Standards. Under Government Regulation No. 24 of 2005, “expenditure” is defined as all outlays from the Central/Local Government Treasury that diminish Current Fund Equity in the fiscal year concerned, and which are not recoverable by government. However, loans provided by Revolving Funds are intended to be recovered by government. If budget allocations for Revolving Funds are classified as

Social Assistance, Subsidy or Grant Expenditure, then this will fail to take account of the specific characteristics of Revolving Funds. In addition, the above expenditure categories do not involve the acquisition of assets. Consequently, if a State Ministry/Institution classifies Revolving Fund expenditure under the above categories, then it will fail to record the acquisition (or inception) value of the Revolving Fund as an asset. If a budget allocation for a Revolving Fund is classified as Other Non-Physical Capital Expenditure, then the Revolving Fund as an asset must be included as Other Assets, rather than as Non-Permanent Long-Term Investments.

In line with the above description, the reporting of Revolving Funds to date has been inappropriate, and incompatible with the principles of state financial management and the Government Accounting Standards.

So as to ensure that the reporting of Revolving Funds accords with the Government Accounting Standards, we need to firstly identify the general characteristics of a Revolving Fund, which are as follows:

1. Forms part of Central/Local Government finances;

2. Is stated in the Central/Local Government budget and/or financial statements;

3. Is controlled and vested in the Budget Controller or his Authorized Officer.

4. Consists of funds that are lent to and recovered from the public, with or without the accrual of added value, and which are then recycled to the public on a recurring basis; and

5. Government has to power to liquidate the Revolving Fund.

If the term “Revolving Fund” is to be used, the above criteria must be satisfied. Under Government Regulation No. 24 on the Government Accounting Standards, budgetary allocations for a Revolving Fund are recorded as Financing Expenditure, the Revolving Fund as an asset is recorded as part of Non-Permanent Long-Term Investments, and repaid revolving fund loans are recorded as Financing Receipts.

Under the State Treasury Act 2004 (No. 1 of 2004), financing transactions are the responsibility of the Minister of Finance in his/her capacity as the Central Government General Treasurer, or the head of the Local Government Financial Management Line Unit in his/her capacity as the Local Government General Treasurer. Accordingly, the relevant reporting entity is the Central/Local Government General Treasurer. In making arrangements for a Revolving Fund, the Central/Local Government Treasurer may appoint a Line Unit of the State Ministry/Institution or Local Government as the Budget Controller. The said Line Unit must be one that is responsible for the financial management of a Central/Local Government Public Service Body as a Public Service Body enjoys cash-management powers, without having to first deposit the receipts into the Central/Local Government Treasury.

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