Foreword

The Government of the Republic of Indonesia (GOI) calls for the urgency of executing good governance in managing the state finance to provide a better service for the people. For such determined reason, the GOI and the House of Representatives have introduced new laws that affect state financial reform, i.e. Law No. 17 Year 2003 on State Finance, Law no. 1Year 2004 on State Treasury, Law No. 15 Year 2004 on Audit of State Financial Management and Accountability, and Law No. 32 Year 2004 on Local Government. Major changes introduced by these laws are, amongst others, the obligation of the central as well as local governments to present financial statements and, consequently, the need of Government Accounting Standards (the standards) as a basis for preparing and presenting such statements.

The standards are prepared by the Government Accounting Standard Committee (the Committee), an independent committee that comprises accounting experts from Indonesian Institute of Accountant, academicians, government practitioners, and so forth. In drafting the standards, the KSAP refers to the International Public Sector Accounting Standards (IPSAS) and adapts them notably to the specific needs and peculiarities of the GOI in which the accounting basis is adapted from accrual basis to “cash toward accrual” basis.

The standards are promulgated under Government Regulation No. 24 year 2005, which is formally issued in Indonesian language. Nearly after one year the Committee later on publishes the English version as a response to the increasing demand of these standards from international community, especially as the comparison to those of other countries as well as IPSAS.

Despite a lot of the contents are originally in English, the Committee encounters difficulties in the process of English translation due to the depth of the adaptation to the Indonesian situation and requirement. However, the difficulties are mitigated due to the kindness of the World Bank, USAID and CIDA which by their own early initiative provide the English translation of these Standards. Without those drafts, the process of finalizing these official English version standards will consume more time.

The Committee understands that these Indonesian Government Accounting Standards are not perfect, either in the language, selection of terms, or in the adaptation of the substance, that every comments are always welcome.

Jakarta May 2006

The Government Accounting Standard Committee

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT III
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.01

PRESENTATION OF FINANCIAL STATEMENTS

PRESIDEN
REPUBLIK INDONESIA

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PRESIDEN
REPUBLIK INDONESIA

GOVERNMENT ACCOUNTING STANDARDS

STATEMENT NO.01

PRESENTATION OF FINANCIAL STATEMENTS

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the presentation of the financial statements for general purposes (general purpose financial statements) for improving the comparability of the financial statements against the budget, between periods, as well as among entities. The general purpose financial statements are financial statements with the objective to fulfill the needs of the majority of the financial statements users. To achieve such objective, this Standard determines all considerations for the presentation of the financial statements, guidelines to the structure of the financial statements, and minimum requirements of the contents of the financial statements. The financial statements are prepared by applying cash basis for recognition of revenues, expenditures, and financing accounts, and accrual basis for the recognition of assets, liabilities, and equity accounts. Recognitions, measurements, and disclosures of specific transactions and other events, are prescribed in other government accounting standards.

Scope

2. General purpose financial statements are prepared and presented using cash basis for recognition of revenues, expenditures, transfer and financing accounts, and accrual basis for recognition of assets, liabilities and equity accounts.

3. General purpose financial statements are statements intended to fulfill the needs of users. The users are the public, legislative bodies, auditor/supervisory institutions, parties providing or having a role in the process of donations, investments, loans, and the government. The financial statements include financial statements that are separately presented or constitute a part of the financial statements that are presented in other public documents such as an annual report.

4. This Standard should be applied by reporting entities in preparing the financial statements of the central government, local governments, and consolidated financial statements, excluding central/local government business enterprises.

Accounting Basis

5. The accounting basis used in government financial statements is cash basis for the recognition of revenues, expenditures, transfers, and financing, and accrual basis for the recognition of assets, liabilities, and equity.

6. Reporting entities are allowed to prepare accounting and present the financial statements by using full accrual basis, either in the recognition of revenues, expenditures, transfers, and financing or in the recognition of assets, liabilities, and equity.

7. Reporting entities that prepare accounting and present financial statements by using accrual basis should also present Statement of Budget Realization by using cash basis.

DEFINITIONS

8. The following terms are used in this Standard with the meanings specified:

<u>Account for Central Government Cash</u> is an account which is determined by the Minister of Finance as Central Government General Treasurer to keep all receipts of state funds and to pay all state disbursements in central bank.

<u>Account for Local Government Cash</u> is an account which is determined by the government/district head (bupati)/mayor to keep all receipts of local funds and to pay all local disbursements in an appointed bank.

<u>Accounting Entity</u> is a government unit endowed to certain budget or goods and therefore is obliged to prepare financial statements to be compiled into those of the reporting entity.

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

<u>Accrual Basis</u> means a basis of accounting under which transactions and other events are recognized when they occur, and not only when cash or its equivalent is received or paid.

<u>Allotment</u> is a document of budget execution that shows parts of appropriation made available to the agencies and is used to obtain cash from the Central/Local Government General Treasurer (BUN/BUD) in order to finance disbursements during the period of allotment.

<u>Appropriation</u> is a budget approved by the Central/Local House of Representatives (DPR/DPRD) which constitutes a mandate to the

President/governor/district head (bupati)/mayor to spend in accordance with the specified objectives.

Assets are economic resources controlled and/or owned by the government as a result of past events and from which economic and/or social benefits in the future are expected to be obtained, either by the government or by the public, and can be measured in monetary unit, including the non-financial resources which are needed to provide services to the public and resources that are maintained for historical and cultural reasons.

Budget is a guideline for government actions comprising plan of revenues, expenditures, transfers, and financing that are measured in Rupiah, which is systematically prepared according to certain classifications for one period.

Cash Basis means a basis of accounting under which transactions and other events are recognized when cash or its equivalent is received or paid.

Cash equivalents are short-term, highly liquid investments that are readily convertible into cash and which are subject to an insignificant risks of changes in value.

Cash Flows are inflows and outflows of cash and cash equivalents within Central Government General Treasurer (BUN) or Local Government General Treasurer (BUD).

Cash is cash on hand and demand deposits that can be readily used to finance the government activity.

Central Government Cash is the depository of central government money as determined by the Minister of Finance as Central Government General Treasurer (BUN) to keep all the central government receipts and disbursements.

Consolidated Financial Statements are financial statements that are combinations of all financial statements of reporting entities to represent one single entity.

Depreciation is the adjustment of value that reflects the decline of capacity and benefit of a certain asset.

Equity is the net asset of the government which is the difference between government assets and liabilities.

Exchange Rate Difference is the difference that arises due to the conversion of foreign currency into the Rupiah.

Expenditures are all disbursements from the Central/Local Government Cash Account that reduce the current equity in the related budget year period for which repayment will not be received by the government.

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financing is any receipt that needs to be repaid and/or disbursements that should be re-received, either during the budget year or the subsequent budget years, which in government budgeting is mainly intended to cover deficits or to make use of budget surplus.

***Fixed Assets* are tangible assets that have a useful life of more than 12 (twelve) months to be used in government activities or to be used for the benefit of the public.**

***Foreign currency* is a currency other than the currency of the reporting entity.**

***Intangible Assets* are identifiable non-financial assets that have no physical form and are owned for producing goods or services or for other purposes, including rights on intellectual property.**

***Interim Financial Statements* are financial statements that are issued between two annual financial statements.**

***Inventories* are current assets in the form of goods or supplies that are intended to support the operational activities of the government, and the goods that are intended for sale and/or to be delivered for public services.**

***Investments* are assets intended to gain economic benefits such as interest, dividend, and royalty, or social benefits, for improving government capability in servicing the public.**

***Liabilities* are present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources.**

***Local Government Cash* is the depository of local government money as determined by the Local Government General Treasurer (BUD) to keep all the local government receipts and disbursements.**

***Materiality* is a condition in which information omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.**

***Partnership* is the agreement between two or more parties that have a commitment to carry out activities which are jointly controlled by using their assets and or business rights.**

***Reporting currency* is the Rupiah that is used in the presentation of financial statements.**

***Reporting Date* is the last date of a certain reporting period.**

***Reporting Entity* is a government unit consisting of one or more accounting entities which according to the statutory regulations is obliged to prepare and submit accountability reports in the form of financial statements.**

***Reserved Funds* are funds reserved to cover the needs that require relatively large funds which cannot be fulfilled within one budget year.**

***Revenue and Expenditure Budget for Central Government (APBN)* is an annual financial plan that has been approved by the Central House of Representatives (DPR).**

***Revenue and Expenditure Budget for Local Government (APBD)* is an annual financial plan that has been approved by the Local House of Representatives (DPRD).**

<u>Revenues</u> are all receipts of the Central/Local General Government Cash which add the current equity in the related budget year period that become the right of the government and with no repayment obligation by the government.

<u>Surplus/deficit after budget financing (SiLPA/SiKPA)</u> is the surplus/deficit after net budget financing.

<u>Surplus/Deficit</u> is the residual difference between revenues and expenditures during one reporting period.

<u>Transfer</u> is receipt or disbursement of cash from a reporting entity to or from other reporting entity, including fiscal balance funds and revenue sharing funds.

<u>Transfer Liability</u> is an obligation of a reporting entity to pay to another entity as a result of statutory regulations.

<u>Transfer Receivables</u> are rights of a reporting entity to receive payment from another reporting entity as a consequence of statutory regulations.

PURPOSE OF FINANCIAL STATEMENTS

9. Financial statements are structured presentation of the financial position and transactions undertaken by a reporting entity. The general purpose of financial statements is to provide information about the financial position, budget realization, cash flow, and financial performance of a reporting entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the purpose of government financial statements is to present information which is useful for decisions making and to demonstrate the accountability of the reporting entity on resources entrusted to it, by:

a) providing information about the position of economic resources, liabilities, and equity of the government;
b) providing information about changes in position of economic resources, liabilities, and equity of the government;
c) providing information about sources, allocations, and the use of economic resources;
d) providing information about the compliance of realization to its budget;
e) providing information about the methods used by the reporting entity to fund its activities and fulfill its cash needs;
f) providing information about the ability of the government to finance its activities;
g) providing information that is useful to evaluate the ability of the reporting entity in funding its activities.

10. The general purpose financial statements also haveT predictive and prospective roles, provide useful information to predict the amount of resources needed for sustainable operations, resources produced from sustainable operations, and the related risks and uncertainties. The financial statements also present information for users about:

a) indications of whether the resources are acquired and used in line with the budget; and

b) indications of whether the resources are acquired and used in line with the provisions, including the budget limit as determined by the Central/Local House of Representatives (DPR/DPRD).

11. To fulfill such general purpose, the financial statements provide information about the reporting entity on:

a) assets;
b) liabilities;
c) equity;
d) revenues;
e) expenditures;
f) transfers;
g) financing; and
h) cash flows.

12. The information in the financial statements is relevant to meet the purposes as stated in paragraph 9, although it cannot fully comply all purposes. Additional information including non-financial reports, can be submitted together with the financial statements to provide a more comprehensive description concerning activities of a reporting entity within one period.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

13. The responsibility for the preparation and presentation of the financial statement is in the management of the entity.

COMPONENTS OF THE FINANCIAL STATEMENTS

14. A complete set of financial statements includes the following components:

a) Statement of Budget Realization;
b) Statement of Financial Position;
c) Statement of Cash Flows; and
d) Notes to the Financial Statements.

15. The components of the financial statements are presented by each reporting entity, with the exception of the Statement of Cash Flows that is only presented by the unit that has a treasury function.

16. A unit that has a treasury function is a unit appointed as a Central/Local Government General Treasurer (BUN/BUD) and/or as proxy Central/Local Government General Treasurer (BUN/BUD).

17. The financial statements provide information about economic resources and liabilities of the reporting entity on the date of reporting and the flow of economic resources during the current period. This information is necessary for users to conduct evaluation towards the ability of the reporting entity in carrying out the future government activities.

18. Government financial activities are restricted by a budget in the form of appropriation or budget authorization. The financial statements provide information whether economic resources have been obtained and used in accordance with the budget. The Statement of Budget Realization contains the budget and its realization.

19. The reporting entity provides additional information to assist the users in assessing the financial performance of the entity and its management of assets, as in making and evaluating the decisions concerning allocation of economic resources. This additional information includes details concerning the output and outcome of the entity in the form of indicators of financial performance, the statement of financial performance, program review and other reports concerning achievement of financial performance of the entity during the reporting period.

20. In addition to presenting the main financial statements, a reporting entity is allowed to present a Statement of Financial Performance and a Statement of Changes in Equity in accrual basis.

21. The reporting entity discloses information concerning compliance to the budget.

STRUCTURE AND CONTENTS

Introduction

22. This Standard requires certain disclosures on the face of the financial statements, requires other disclosures on the Notes to the Financial Statements, and recommends illustrations to the financial statements as attachment to this Standard which can be used by reporting entities subject to its respective situation.

23. This Standard uses terms of disclosures in the widest meaning, comprising items presented either on the face of each financial statement or in the Notes to the Financial Statements. Disclosures required in other Government Accounting Standards are presented in accordance with the provisions in respective standards. Unless there is a standard that prescribes otherwise, such disclosures are prepared on the face of the relevant financial statements or in the Notes to the Financial Statements.

Identification of Financial Statements

24. The Financial statements are clearly identified and differentiated from other information in the same published documents.

25. The Government Accounting Standards only apply to financial statements and not for other information presented in an annual report or other documents. Therefore, it is important for users to be able to differentiate information presented according to the Government Accounting Standards from other information, which is not a subject prescribed in this Standard.

26. Each component of the financial statements must be clearly identified. Additionally, the following information should be presented clearly and repeatedly on each page of the report, if necessary, to obtain adequate understanding on the presented information:

a) name of reporting entity or other identification;
b) scope of financial statements, whether it is one reporting entity or a consolidation of several reporting entities;
c) date or period of reporting covered by the financial statements according to the components of the financial statements;
d) reporting currency; and
e) degree of accuracy used in the presentation of figures in the financial statements.

27. The requirements in paragraph 26 can be fulfilled through presentation of brief headings and column headings on each page of financial statements. Various considerations are used for numbering of pages, references and presentation of attachments in order to facilitate users in understanding the financial statements.

28. The financial statements are often easier to understand if the information presented is in thousands or millions of Rupiah. Such presentation is acceptable as long as the degree of accuracy in the presentation of figures disclosed and the relevant information are not diminished.

Reporting Period

29. The financial statements are prepared and presented at least once a year. In certain situation, when the report date of an entity changes and the annual financial statements are presented with a period longer or shorter than one year, the reporting entity thus discloses the following information:

a) reasons for not applying a one year reporting period,
b) facts that comparative amounts for certain reports such as the cash flows and related notes are not comparable.

30. In certain situation a reporting entity must change the reporting date, for example a change in the budget year. Disclosures on changes of reporting dates are important in order that users are aware that the amounts presented are for the current period and comparative amounts cannot be compared. A further example is in the period of transition from cash basis accounting to accrual basis accounting, or when the reporting entity changes the date of reporting of accounting entities within the reporting entity to allow preparation of consolidated financial statements.

Timeliness

31. The usefulness of financial statements will diminish if a report is not available for users within a certain period of time after the date of reporting. The factors such as operational complexities of a reporting entity are insufficient grounds for failure of reporting in time. The financial statements should be submitted to the Central/Local House of

Representatives (DPR/DPRD) not later than 6 (six) months after the end of budget year.

Statement of Budget Realization

32. The Statement of Budget Realization discloses financial activities of the central/local government which shows compliance to the Revenue and Expenditure Budget for Central Government (APBN)/ the Revenue and Expenditure Budget for Local Government (APBD).

33. The Statement of Budget Realization presents a summary of sources, allocation and utilization of economic resources which are managed by the central/local government during one reporting period.

34. The Statement of Budget Realization presents at least the following elements:

a) revenues;
b) expenditures;
c) transfers;
d) surplus/deficit;
e) financing;
f) surplus/deficit after budget financing (SiLPA/SiKPA).

35. The Statement of Budget Realization illustrates a comparison between the budget and its realization during one reporting period.

36. The Statement of Budget Realization is further explained in the Notes to the Financial Statements. Such explanation contains matters that influence the implementation of the budget such as fiscal and monetary policies, causes of occurrence of material differences between the budget and its realization, as well as further detailed lists of figures that are considered necessary to be explained.

37. Government Accounting Standard No.02 (PSAP No.02) prescribes the requirements for the presentation of the Statement of Budget Realization and disclosures of the related information.

Statement of Financial Position

38. The Statement of Financial Position describes the financial position of a reporting entity concerning assets, liabilities and equity on a certain date.

Classification

39. Each reporting entity classifies its assets into current assets and non-current assets and classifies its liabilities into short-term liabilities and long-term liabilities in the Statement of Financial Position.

40. Each reporting entity discloses each asset and liability amounts that are expected to be received or paid out within a period of 12 (twelve) months after the reporting date and amounts expected to be received or paid out within a period of more than 12 (twelve) months.

41. In the event a reporting entity provides goods to be used in carrying out government activities, separate classifications are needed for current assets and non-current assets in the Statement of Financial Position to provide information concerning the goods to be used in the subsequent period of accounting and those that will be used for long term purpose.

42. Information about the maturity date of financial assets and liabilities is useful for the assessment of liquidity and solvency of a reporting entity. Information concerning the date of settlement of non-monetary assets and liabilities, such as inventories and reserves, is also useful to understand whether assets are classified as current and non-current assets and liabilities are classified as short-term and long-term liabilities.

43. The Statement of Financial Position contains at least the following accounts:

a) cash and cash equivalents;
b) short-term investments;
c) tax and non-tax receivables;
d) inventories;
e) long-term investments;
f) fixed assets;
g) short-term liabilities;
h) long-term liabilities;
i) equity.

44. Accounts other than those mentioned in paragraph 43 are presented in the Statement of Financial Position if the Government Accounting Standards require such, or if such presentation is needed to present a fair financial position of a reporting entity.

45. Illustration of Statement of Financial Position is presented at attachment III.A and III.B of this Standard. Attachment is only an illustration and is not part of accounting standard. The purpose of showing it in the attachment is for illustrating the application of accounting standards for preparing financial statements.

46. The considerations for presenting additional accounts separately are based on the following factors:

a) Nature, liquidity, and materiality of assets;
b) Functions of those accounts in the reporting entity;
c) Total, nature, and period of liabilities.

47. Assets and liabilities that differ in nature and function are sometimes measured by different measurement basis. As an example, a group of certain fixed assets is recorded based on the acquisition costs and other groups are recorded based on estimated fair value.

Current Assets

48. An asset should be classified as a current asset when:

a) it is expected to be realized in, or is held for sale or consumption in, within a period of 12 (twelve) months from the date of reporting, or
b) it is cash or cash equivalent asset.

All assets other than those included in (a) and (b), are classified as non-current assets.

49. Current assets consist of cash and cash equivalent, short-term investments, receivables, and inventories. Short-term investments, among others, are time deposits from 3 (three) to 12 (twelve) months and tradable commercial papers. Receivables among others are tax receivables, retributions, fines, installments of Sales, indemnification claims, and other receivables that are expected to be received within a period of 12 (twelve) months after the reporting date. Inventories include goods or supplies which are purchased and kept for use, for example consumables such as office stationeries, non consumables such as equipment components and pipes, and used goods such as used components.

Non-Current Assets

50. Non-Current Assets comprise assets which are long term in nature and intangible assets that are directly or indirectly used for government activities or that are used by the public.

51. In order to simplify the understanding of non current asset components in the Statement of Financial Position, Non-Current Assets are classified into long-term investments, fixed assets, reserved funds, and other assets.

52. Long-term investments are investments that are intended to be held for more than 12 (twelve) months. Long-term investments consist of non-permanent and permanent investments.

53. Non-permanent investments are long-term investments which are not intended to be permanently held.

54. Permanent investments are long-term investments which are intended to be permanently held.

55. Non-permanent investments consist of:

a) Purchase of Government Bond (Surat Utang Negara);
b) Capital investment in development projects (proyek pembangunan) that can be transferred to third parties; and
c) Other non-permanent investments.

56. Permanent Investments consist of:

a) Government Investment (PMP) in Central/Local Government Business Enterprises (BUMN/BUMD), state financial institutions, State Owned Legal Entities (BHMN), international institutions, and other legal institutions which are not owned by the government.
b) Other Permanent Investments.

57. Fixed assets are tangible assets that have a useful life for more than twelve months for use in government activities or for use by the public.

58. Fixed assets consist of:

a) Land;
b) Equipment and machinery;
c) Buildings and properties;
d) Roads, irrigations, and transmission networks;

e) Other fixed assets; and
f) Construction in progress.

59. Reserved Funds are funds reserved to cover the needs that require relatively large funds which cannot be fulfilled in one budget year. Reserved funds are detailed according to their purpose.

60. Other non-current assets are classified as other assets. Included in other assets are intangible assets, receivables from sales by installments that mature in a period of more than 12 (twelve) months, and joint-operation assets (partnership).

Recognition of Assets

61. Assets are recognized when potential future economic benefits flow to the government and the fair value or costs of the assets can be measured reliably.

62. Assets are recognized when received or when the ownership and/or the control are transferred.

Measurement of Assets

63. Measurement of assets is as follows:
a) Cash is recorded in its nominal value;
b) Short-term investments are recorded in its acquisition costs;
c) Receivables are recorded in their nominal value;
d) Inventory is recorded in the amount of:
(1) Acquisition costs if it is acquired through purchase;
(2) Standard costs if it is acquired through self-production;
(3) Fair value if it is acquired by other means such as donation/seizure.

64. Long-term investments are recorded in the amount of acquisition costs including other additional costs that occur to obtain legal ownership of such investments.

65. Fixed assets are recorded in the amount of acquisition costs. If it is impossible to value the fixed assets using acquisition costs, then the value of such fixed assets is determined based on the fair value at the time of acquisition.

66. Other than land and construction in progress, all fixed assets can be depreciated in accordance with the nature and characteristics of such assets.

67. Acquisition costs of fixed assets which are developed through self-construction (*swakelola*) include direct labor, raw material, and indirect costs, including costs for planning and supervision, supplies, electricity, rental of equipment and all other costs that occur in relation to the development of such fixed assets.

68. Monetary assets in foreign currencies are presented and stated in the Rupiah currency. The presentation of foreign currencies uses the mid-rate of the central bank on the date of the Statement of Financial Position.

Short-term Liabilities

69. A liability is classified as a short-term liability if such is expected to be paid within a period of 12 (twelve) months after the reporting date. All other liabilities are classified as long-term liabilities.

70. Short-term liabilities can be categorized by similar method as current assets. Several short-term liabilities such as government transfer debts or debts to employees, will absorb current assets in the subsequent reporting year.

71. Other short-term liabilities are liabilities that are mature within a period of 12 (twelve) months after the reporting date. For example, interest payable, short-term debts to third parties, due to the third parties (PFK), and current portion of long-term debts.

Long-term Liabilities

72. A reporting entity continues to classify its long-term liabilities, although such liabilities are mature and are for settlement within a period of 12 (twelve) months after the reporting date, if:

a) the original maturity period is for a period of more than 12 (twelve) months;

b) the entity plans to refinance such liabilities based on long term period; and

c) such purpose is supported by the existence of a refinancing agreement, or a rescheduling of payments which will be settled prior to the approval of the financial statement.

The amount of short-term liabilities treated in accordance with this paragraph, together with information supporting this presentation, should be disclosed in the Notes to the Financial Statements.

73. Several liabilities that are mature in the subsequent year can possibly be expected to be refinanced or rolled over based on the policy of the reporting entity and are expected not to absorb the entity funds immediately. Such liabilities are considered and classified as long-term liabilities. However, in a situation where the refinancing policy is not under the control of the entity (such as in the case where there is no approval for the refinancing), then the refinancing cannot be automatically considered, and such liabilities should be classified as short-term liabilities unless the settlement of the refinancing agreement prior to the financial statements approval proves that the substance of liabilities on the reporting date is long-term.

74. Several loan agreements carry certain covenants that cause long-term liabilities to become short-term liabilities (payable on demand) if certain covenants related to the financial position of the borrower are violated. In such situation, liabilities are then classified as long-term liabilities only if:

a) the lender approves not to demand for payment as a consequence of the violations, and

b) there will be no subsequent violations within a period of 12 (twelve) months after the reporting date.

Recognition of Liabilities

75. Liabilities are recognized if there is significant possibility that the disbursement of economic resources will be carried out or have been carried out to settle the existing liabilities, and changes on such liabilities have a settlement value that can be measured reliably.

76. Liabilities are recognized at the time the loan received or at the time such liability occurred.

Measurement of Liabilities

77. Liabilities are recorded in the nominal amount. Liabilities in foreign currencies are translated and presented in the Rupiah currency. The presentation of foreign currencies uses the mid-rate of the central bank on the date of the Statement of Financial Position.

Equity

78. Each reporting entity will disclose separately in the Statement of Financial Position or in the Notes to the Financial Statements:

a) Current Equity, including surplus/deficit after budget financing (SiLPA/SiKPA);
b) Investment Equity;
c) Reserved Fund Equity.

79. Current Equity is the difference between current assets and short-term liabilities. Current Equity such as the surplus/deficit after budget financing (SiLPA/SiKPA), receivables reserves, inventory reserves, and deductible equity for payment of short-term liabilities.

80. Investment Equity reflects government assets invested in long-term investments, fixed assets, and other assets, deducted by long-term liabilities.

81. Reserved Fund Equity reflects government assets reserved for certain purposes in accordance with statutory regulations.

Information Presented in the Statement of Financial Position or in the Notes to the Financial Statements

82. A reporting entity discloses, both in the Statement of Financial Position as well as in the Notes to the Financial Statements, sub-classifications of accounts presented, classified by method in accordance with the operations of the related entity. An account will be further sub-classified, if necessary, in accordance with its nature.

83. Details contained in the sub-classifications in the Statement of Financial Position or in the Notes to the Financial Statements depend upon the requirements of the Government Accounting Standards and the materiality amount of the accounts. Factors mentioned in paragraph 84 can be used to determine the basis of sub-classifications.

84. Disclosures will vary for each accounts, for example:

(a) receivables are detailed according to total tax receivables, retributions, sales, related parties, advanced payment, and other amounts; transfer receivables are detailed according to their sources;

(b) inventories are detailed further in accordance with the accounting standard for inventories;
(c) fixed assets are classified based on categories in accordance with the accounting standard for fixed assets;
(d) transfer debts are analyzed according to the receiving entities;
(e) reserved funds are classified in accordance with their purposes;
(f) components of equity are classified into current equity, investment equity, and reserved fund equity.
(g) disclosures on the ownership of the government in state/local/other government business entities are amounts of investments, degree of control and valuation methods.

Statement of Cash Flow

85. The Statement of Cash Flow presents information concerning sources, usages, changes in cash and cash equivalent during one accounting period, and the balance of cash and cash equivalent on the reporting date.

86. Cash inflows and outflows are classified based on operating, non-financial asset investing, financing, and non-budgeting activities.

87. The presentation of the Statement of Cash Flow and disclosures related to the cash flow are prescribed in Government Accounting Standard Number 03 on Statement of Cash Flows.

Statement of Financial Performance

88. If a reporting entity applies accrual basis as outlined in paragraph 20 then the main financial statements will be completed with a Statement of Financial Performance. The Statement of Financial Performance will at least present the following accounts:

a) Revenues from operational activities;
b) Expenditures based on classification of function and economy;
c) Surplus or deficit.

Additional accounts, titles, and sub-totals are presented in the Statement of Financial Performance if this Standard requires such, or if it is necessary to fairly present the financial performance of a reporting entity.

89. In relation to the Statement of Financial Performance, operational activities of a reporting entity can be analyzed according to economic classifications or function/program classifications to achieve the determined objectives.

90. Additional accounts to the Statement of Financial Performance and their descriptions as well as the structure of those accounts can be changed, if necessary, to explain performance. Factors that need to be considered are materiality, nature, and function of components of revenues and expenditures.

91. In the Statement of Financial Performance that is analyzed according to the expenditures classification, the expenditures are categorized

according to economic classifications (for example depreciation/amortization expense, office supplies expense, transportation expense, and salary and allowance expense), and will not be re-allocated to various functions within a reporting entity. This method is simple for application in many smaller entities since this will not require allocation of operational expenses in various functions.

92. In the Statement of Financial Performance that is analyzed according to classification of functions, the expenses are categorized according to programs or the purposes. The presentation of this statement provides more relevant information for users compared to the statement according to economic classification, although in this case the expenses allocation to functions is sometimes of arbitrary nature and is based on certain considerations.

93. A reporting entity that categorizes expenses according to the classification of functions also discloses additional information of expenses according to economic classification, among others, covering depreciation/ amortization expenses, salary and allowances expenses, and loan interest expenses.

94. The selection of a method of economic classification or function classification will depend on historical factors and statutory regulations as well as the nature of the organization. Both methods can provide indications of expenses that may, either directly or indirectly, be different from the output of the related reporting entity. Since the application of each respective method towards different entities will have their own advantages, therefore this Standard allows the reporting entity to select one of the methods considered as the best in presenting adequately the performance elements.

Statement of Changes in Equity

95. A reporting entity that presents a Statement of Changes in Equity as outlined in paragraph 20 presents at least the following accounts:

a) Surplus/deficit after budget financing (SiLPA/SiKPA);
b) Each revenue and expenditure account and their amounts as required in other standards, which are directly recognized in equity;
c) The cumulative effects of changes in accounting policies and adjustment of basic errors which are prescribed in a separate standard.

96. Additionally, a reporting entity presents on the face or in the Notes to the Financial Statements the followings:

a) Balance of equity at the beginning of the period and on the reporting date, and its changes during the current period.
b) If the components of equity are separately disclosed, the reconciliation between the value of each equity component at the beginning and at the end of the period that discloses each respective changes separately.

Notes to the Financial Statements

Structure

97. In order that users can understand and compare the financial statements against those of other entities, the Notes to the Financial Statements at least should be presented in the following structure:

a) information on fiscal/financial policies, macro economy, achievement of target of Revenue and Expenditure Budget for Central/Local Government (APBN/APBD), with the impediments and obstacles faced in achieving the target;
b) summary on achievement of financial performance during the reporting year;
c) information concerning basis in preparing financial statements and accounting policies selected for application on transactions and other important events;
d) disclosure of information as prescribed by the Government Accounting Standards which is not yet presented on the face of the financial statements;
e) disclosure of information of assets and liabilities accounts that occur in relation to the application of accrual basis on revenues and expenditures and its reconciliation with the application of cash basis;
f) additional information required for a fair presentation, which is not presented on the face of the financial statements;
g) lists and schedules.

98. Notes to the Financial Statements are presented systematically. Every account in the Statement of Budget Realization, the Statement of Financial Position, and the Statement of Cash Flow must have cross-references to the related information in the Notes to the Financial Statements.

99. Notes to the Financial Statements comprise detailed explanations or detailed lists or analysis of a value of an account presented in the Statement of Budget Realization, the Statement of Financial Position, and the Statement of Cash Flow. Included in the Notes to the Financial Statements is the presentation of information which is mandated and suggested by the Government Accounting Standards and other necessary disclosures for fair presentation of the financial statements, such as contingent liabilities and other commitments.

100. In certain situation it is still possible to change the composition of presentation of certain accounts in the Notes to the Financial Statements. For example, information on rate of interest and adjustments of a fair value can be combined with information on maturity of commercial papers.

Presentation of Accounting Policies

101. The part of accounting policies in the Notes to the Financial Statements explains the followings:

(a) basis of measurement used in the preparation of the financial statements;

(b) the extent the accounting policies related to the provisions to the transition period of the Government Accounting Standards applied in a reporting entity; and

(c) each certain accounting policy necessary to understand the financial statements.

102. Users of the financial statements need to know the basis of measurements used in the presentation of the financial statements. If more than one basis of measurement is used in the preparation of the financial statements, then the information presented should be sufficiently adequate to indicate assets and liabilities that use such basis of measurement.

103. In determining whether an accounting policy needs to be disclosed, the management must consider whether such disclosure can assist users to understand each transaction reflected in the financial statements. Accounting policies that need to be considered for presentation include, but are not limited to, the followings:

(a) Recognition of revenues;
(b) Recognition of expenditures;
(c) Principles of preparation of consolidated financial statements;
(d) Investments;
(e) Recognition and disposal/write-off of tangible and intangible assets;
(f) Construction contracts;
(g) Capital expenditure policies;
(h) Partnerships with third parties;
(i) Costs for research and development;
(j) Inventory, both for sale as well for own use;
(k) Reserved funds;
(l) Foreign currency translation and hedging.

104. Each reporting entity needs to consider the nature of activities and policies to be disclosed in the Notes to the Financial Statements. For example, disclosure of information for recognition of taxes, retributions, and other forms of nonreciprocal revenues, translation of foreign currencies, and accounting treatment for exchange rate differences.

105. Accounting policies can become significant although the value of accounts presented in the current and prior periods is immaterial. Besides, it is also necessary to disclose the accounting policy selected and applied which is not regulated in this Standard.

Other Disclosures

106. A reporting entity discloses, if such has not yet been conveyed in any part of the financial statements, the followings:

i. domicile and legal form of an entity and the jurisdiction where such entity operates;

ii. ***explanation concerning the nature of the entity and its main activities;***

iii. ***legal provisions that become the basis of its operational activities.***

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

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THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT IV

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.02

STATEMENT OF BUDGET REALIZATION

PRESIDEN
REPUBLIK INDONESIA

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Attachment:

Attachment IV.A: Illustrated Format for the Statement of Budget Realization of the Central Government

Attachment IV.B: Illustrated Format for the Statement of Budget Realization of the Province Government

Attachment IV.C: Illustrated Format for the Statement of Budget Realization of the District/City Government

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.02

STATEMENT OF BUDGET REALIZATION

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

PREFACE

Objective

1. The objective of the Statement of Budget Realization is to determine the principles of presentation of the Statement of Budget Realization for the government in order to meet the accountability objective as determined by the prevailing regulations.

2. The objective of the budget realization reporting is to provide comparable information concerning the realization and the budget of a reporting entity. The comparison between the budget and its realization shows the levels of achievement of targets, which have been agreed upon between the legislatives and the executives in accordance with the prevailing regulations.

Scope

3. This Standard is applied in the presentation of the Statement of Budget Realization, which is prepared and presented in cash basis accounting.

4. This Standard is applicable for every reporting entity, whether it is central or local government, which receives budget based on the Revenue and Expenditure Budget for Central Government (APBN)/Revenue and Expenditure Budget for Local Government (APBD), excluding Central Government Business Enterprise (BUMN)/Local Government Business Enterprise (BUMD).

5. Reporting entity that applies accrual basis accounting and accrual basis financial statements should apply a cash basis Statement of Budget Realization.

BENEFITS OF BUDGET REALIZATION INFORMATION

6. The Statement of Budget Realization provides information concerning the realization of revenues, expenditures, transfers, surplus/deficit, and financing of a reporting entity, where each of them is compared with its respective budget. That information is useful for the users in evaluating decisions concerning the allocation of economic resources, accountability, and the compliance of the reporting entity to the budget by:

(a) providing information concerning sources, allocation, and application of economic resources;

(b) providing information concerning comprehensive budget realization that is useful in evaluating government performance in its efficiency and effectiveness of budget application.

7. The Statement of Budget Realization provides information that is useful in predicting economic resources that will be received to finance the activities of central and local governments in the future by presenting a comparative report. The Statement of Budget Realization provides information to users concerning the indicators of acquisition and application of economic resources, whether they:

(a) have been efficiently, effectively, and economically executed;

(b) have been executed in accordance with the budget (Revenue and Expenditure Budget for Central/Local Government (APBN/APBD)); and

(c) have been executed in accordance with the prevailing regulations.

DEFINITIONS

8. The following terms are used in this Standard with the meanings specified:

<u>Account for Central Government Cash</u> is an account which is determined by the Minister of Finance as Central Government General Treasurer to keep all receipts of state funds and to pay all state disbursements in central bank.

<u>Account for Local Government Cash</u> is an account which is determined by the government/district head (bupati)/mayor to keep all receipts of local funds and to pay all local disbursements in an appointed bank.

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

***Allotment* is a document of budget execution that shows parts of appropriation made available to the agencies and is used to obtain cash from the Central/Local Government General Treasurer (BUN/BUD) in order to finance disbursements during the period of allotment.**

***Appropriation* is a budget approved by the Central/Local House of Representatives (DPR/DPRD) which constitutes a mandate to the President/governor/district head (bupati)/mayor to spend in accordance with the specified objectives.**

***Budget* is a guideline for government actions comprising plan of revenues, expenditures, transfers, and financing that are measured in Rupiah, which is systematically prepared according to certain classifications for one period.**

***Cash Basis* means a basis of accounting under which transactions and other events are recognized when cash or its equivalent is received or paid.**

***Central Government Business Enterprise* (BUMN) is a legal business entity, which all or part of its capital is owned by the central government.**

***Central Government Cash* is the depository of central government money as determined by the Minister of Finance as Central Government General Treasurer (BUN) to keep all the central government receipts and disbursements.**

***Expenditures* are all disbursements from the Central/Local Government Cash Account that reduce the current equity in the related budget year period for which repayment will not be received by the government.**

***Financing* is any receipt that needs to be repaid and/or disbursements that should be re-received, either during the budget year or the subsequent budget years, which in government budgeting is mainly intended to cover deficits or to make use of budget surplus.**

***Foreign exchange* is the exchange ratio of two currencies.**

***Gross Principle* is a principle that does not allow an organization unit to record the receipt in net after being deducted by the disbursement or does not allow to record the disbursement after conducting compensation between receipt and disbursement.**

***Local Government Business Enterprise* (BUMD) is a legal business entity, which all or part of its capital is owned by the local government.**

***Local Government Cash** is the depository of local government money as determined by the Local Government General Treasurer (BUD) to keep all the local government receipts and disbursements.*

***Reporting Entity** is a government unit consisting of one or more accounting entities which according to the statutory regulations is obliged to prepare and submit accountability reports in the form of financial statements.*

***Reserved Funds** are funds reserved to cover the needs that require relatively large funds which cannot be fulfilled within one budget year.*

***Revenue and Expenditure Budget for Central Government (APBN)** is an annual financial plan that has been approved by the Central House of Representatives (DPR).*

***Revenue and Expenditure Budget for Local Government (APBD)** is an annual financial plan that has been approved by the Local House of Representatives (DPRD).*

***Revenues** are all receipts of the Central/Local General Government Cash which add the current equity in the related budget year period that become the right of the government and with no repayment obligation by the government.*

***Surplus/Deficit** is the residual difference between revenues and expenditures during one reporting period.*

***Transfer** is receipt or disbursement of cash from a reporting entity to or from other reporting entity, including fiscal balance funds and revenue sharing funds.*

STRUCTURE OF STATEMENT OF BUDGET REALIZATION

9. The Statement of Budget Realization presents information on the realization of revenues, expenditures, transfers, surplus/deficit, and financing, where each of them is compared with its respective budget within one period.

10. In the Statement of Budget Realization, the following information must be clearly identified, and repeated in every page of the report, if necessary:

(a) the name of the reporting entity or other identification;

(b) the scope of the reporting entity;

(c) reporting period;

(d) reporting currency; and

(e) unit of measurement.

REPORTING PERIOD

11. The Budget Realization Period is presented at least once a year. In a certain situation when a report date of an entity is changed and the Statement of Budget Realization is presented with a period longer or less than one year, the entity discloses the following information:

(a) the reason for using a reporting period other than one year;

(b) facts that comparative numbers in the Statement of Budget Realization and the related notes are not comparable.

TIMELINESS

12. The benefit of Statement of Budget Realization is diminished if the statement is not available on time. Factors such as the complexity of government operations cannot be used to justify the inability of the reporting entity to present the financial statements on time. A reporting entity should present the Statement of Budget Realization at no later than 6 (six) months after the end of the budget year.

THE CONTENT OF THE STATEMENT OF BUDGET REALIZATION

13. The Statement of Budget Realization is presented in such a way that it shows elements of revenues, expenditures, transfers, surplus/deficit, and financing that are necessary for fair presentation. The Statement of Budget Realization presents comparative information on the realization of revenues, expenditures, transfers, surplus/deficit, and financing, to its respective budget. The Statement of Budget Realization is explained further in the Notes to the Financial Statements, which elaborate matters that affect the budget execution such as fiscal and monetary policies, the causes of significant differences between the budget and its realization, and lists of further details of figures that are considered necessary to be explained.

14. The Statement of Budget Realization at least includes the following accounts:

(a) Revenues

(b) Expenditures

(c) Transfers

(d) Surplus or deficit

(e) Financing receipt

(f) Financing disbursement

(g) Net Financing; and

(h) Surplus/Deficit after Budget Financing (SiLPA/SiKPA).

15. Accounts, titles, and other sub totals are presented in the Statement of Budget Realization if they are obligated by this Standard, or if such presentation is necessary to fairly present the Statement of Budget Realization.

16. Illustrated format of the Statement of Budget Realization are presented in Attachment IV.A-C of this Standard. The attachment is just an illustration and it is not part of the Standard. Its purpose is to show the application of the Standard and to assist the users in clarifying the meaning.

INFORMATION PRESENTED IN THE STATEMENT OF BUDGET REALIZATION OR IN THE NOTES TO THE FINANCIAL STATEMENTS

17. The reporting entity presents classifications of revenues according to types of revenues in the Statement of Budget Realization, and presents further details of types of revenues in the Notes to the Financial Statements.

18. The reporting entity presents classifications of expenditures according to types of expenditures in the Statement of Budget Realization. Expenditure classifications according to organizations are presented in the Statement of Budget Realization or in the Notes to the Financial Statements. Expenditure classifications according to the functions are presented in the Notes to the Financial Statements.

BUDGETARY ACCOUNTING

19. Budgetary accounting is a tool of accountability and management control which is used to assist the government in managing its revenues, expenditures, transfers, and financing.

20. Budgetary accounting is carried out in accordance with the budget structure, which consists of revenues, expenditures, and financing budgets. Revenue budget includes estimated revenue that is broken down to allocations of estimated revenues. Expenditure budget consists of

appropriation that is broken down to budget credit authorization (allotment). Financing budget consists of financing receipt and financing disbursement.

21. Budgetary accounting is carried out at the time the budget is approved and at the time the budget is allocated.

ACCOUNTING FOR REVENUES

22. Revenues are recognized by the time they are received by the Account for Central/Local Government Cash.

23. Revenues are classified according to types of revenues.

24. Transfer-in is money received from other reporting entities, for example, receipt of balanced funds from the central government and revenue sharing funds from the local government.

25. Accounting for Revenues is applied based on gross principle, which records the gross receipt, and does not record the net amount (after it is compensated with expenses).

26. In the Public Services Body (BLU), revenues are recognized by referring to the prevailing statutory regulations on the Public Services Body (BLU).

27. Normal and recurring refund of revenues of the current period or of the previous periods are recorded as a deduction to the revenues.

28. Correction and refund, of non-recurring nature of revenues received in the period the revenues are received, are recorded as a deduction to the revenues in the same period.

29. Correction and refund, of non-recurring nature of revenues received which take place in the previous period, are recorded as a deduction to the current equity in the period the said correction and refund are found.

30. Accounting for Revenues is prepared to fulfill the need of accountability in accordance with the regulations and for management control purpose of the central and local governments.

ACCOUNTING FOR EXPENDITURES

31. Expenditures are recognized at the time of disbursement from the Account for Central/Local Government Cash.

32. Specifically for disbursements through the disbursing treasurer, the recognition takes place at the time the accountability of

the mentioned disbursements is approved by the unit which has a function of a treasurer.

33. In Public Services Body (BLU), expenditures are recognized by referring to prevailing statutory regulations on the Public Services Body (BLU).

34. Expenditures are classified according to economic classifications (types of expenditures), organizations, and functions.

35. Economic classification is the grouping of expenditures based on types of expenditures to conduct an activity. Economic classifications for central government are employee expenditures, goods expenditures, capital expenditures, interests, subsidies, grants, social aids, and miscellaneous expenditures. Economic classifications for local government consist of employee expenditures, goods expenditures, capital expenditures, interests, subsidies, grants, social aids, and unexpected expenditures.

36. Operating expenditures are budgeted disbursements for daily activities of central/local government, which provide short-term benefits. Operating expenditures consist of employee expenditures, goods expenditures, interests, subsidies, grants, social aids.

37. Capital expenditures are budgeted disbursements for acquisition of fixed assets and other assets, which provide benefits for more than one accounting period. Capital expenditures consist of capital expenditures for acquisition of land, building and property, equipments, and intangible assets.

38. Other/unexpected expenditures are budgeted disbursements for activities of irregular nature and are not expected to recur, such as natural disasters relief, social disasters relief, and other unexpected expenditures that are highly necessary in order to implement central/local government authority.

39. Examples of classification of expenditures based on economy (types of expenditures) are as follow:

Operating Expenditures:	
- Employee Expenditures	xxx
- Goods Expenditures	xxx
- Interests	xxx
- Subsidies	xxx
- Grants	xxx
- Social Aids	xxx
Capital Expenditures:	
- Fixed Assets Expenditures	xxx

- Other Assets Expenditures	xxx
- Other/Unexpected Expenditures	xxx

40. Transfer out is disbursement of money from one reporting entity to another, such as disbursement of balanced funds by the central government and revenue sharing funds by the local government.

41. Classification according to organization is classification based on organization units that utilize the budget. The classifications of expenditures according to organizations in the central government are for example expenditures for each line ministry/institution and their respected organization units. Classification of expenditures according to organization in the local government is expenditures of the Secretary of the Local House of Representative (DPRD), Secretary of the province/district/city government, province/ district/city level governmental unit, and province/district/city technical agencies.

42. Classifications according to functions are classifications based on primary functions of central/local government in providing services to the public.

43. Examples of classifications of expenditures according to functions are as follow:

Expenditures:	
- Public Services	xxx
- Defense	xxx
- Order and Safety	xxx
- Economy	xxx
- Environment Protection	xxx
- Housing and Residential	xxx
- Health	xxx
- Tourism and Culture	xxx
- Religion	xxx
- Education	xxx
- Social Protection	xxx

44. Realization of expenditure budget is reported in accordance with the classifications determined in the budget documentation.

45. Correction on disbursed expenditure (receipt on corrected expenditures) that takes place in the period that the expenditures are made is recorded as expenditure deduction in the same period. If

received in the subsequent period, correction on disbursed expenditures is recorded as other revenues.

46. Accounting for Expenditures is prepared not only to fulfill the accountability in accordance with the regulations, but it can also be developed for control purposes for the management which allows measurement of such expenditure activities.

ACCOUNTING FOR SURPLUS/DEFICIT

47. Surplus is the positive difference between revenues and expenditures during one reporting period.

48. Deficit is the negative difference between revenues and expenditures during one reporting period.

49. A positive/negative difference between revenues and expenditures during one reporting period is recorded in the Surplus/Deficit account.

ACCOUNTING FOR FINANCING

50. Financing covers all government financial transactions, either receipts or disbursements, which should be paid or should be re-received, which in the government budget is primarily intended to cover the deficit and or make use of the budget surplus. Financing receipts can originate from loans and proceeds of divestment. Meanwhile, financing disbursements are utilized to pay back loan principals, provide loans to other entities, and investment placement by the government.

ACCOUNTING FOR FINANCING RECEIPTS

51. Financing receipts are all receipts in the Account for Central/Local Government Cash, for example receipt from loan, sale of government bonds, proceeds of privatization of Central/Local Government Business Enterprise (BUMN/BUMD), receipt of repayment of loans provided to the third parties, sale of other permanent investments, and liquidation of reserved funds.

52. Financing receipts are recognized at the time they are received by the Account for Central/Local Government Cash.

53. Accounting for financing receipts is implemented based on gross principle, which records gross receipts, and does not record the net amount (after compensation with disbursements).

54. Receipts from Reserved Fund Liquidation offset the related Reserved Funds.

ACCOUNTING FOR FINANCING DISBURSEMENTS

55. Financing disbursements are all disbursements of the Account for Central/Local Government Cash, such as the granting of loans to the third parties, the placement of investment by the government, the payment of loan principal in a certain budget period, and the establishment of reserved funds.

56. Financing disbursements are recognized at the time they are disbursed from the Account for Central/Local Government Cash.

57. Establishment of Reserved Funds adds the amount of the respective Reserved Funds. Proceeds that are received from the operation of the Reserved Funds in the local government are addition to the Reserved Funds. Those proceeds are recorded as revenues in the account of Other Local Original Revenues.

ACCOUNTING FOR NET FINANCING

58. Net Financing is the difference between financing receipt and financing disbursement in a certain budget period.

59. Positive/negative difference between receipt and disbursement financing in one period of reporting is recorded in the Net Financing account.

ACCOUNTING FOR SURPLUS/DEFICIT AFTER BUDGET FINANCING (SILPA/SIKPA)

60. Surplus/deficit after budget financing is the surplus/deficit difference between the realization of all receipts and all disbursements in one reporting period.

61. Surplus/deficit balance between realization of all receipts and all disbursements in one reporting period is recorded in the SiLPA/SiKPA account.

FOREIGN CURRENCY TRANSACTIONS

62. Transactions in foreign currencies should be recorded in Rupiah by converting the amount of the foreign currency with the Bank Indonesia (BI) mid-rate on the transaction date.

REVENUES, EXPENDITURES, AND FINANCING TRANSACTIONS IN THE FORM OF GOODS AND SERVICES

63. Revenues, expenditures, and financing transactions in the form of goods and services should be reported in the Statement of Budget Realization by estimating the values of the goods and services at the date of transaction. Besides, these kinds of transactions should also be properly disclosed in the Notes to the Financial Statements, so they will provide all relevant information concerning the forms of revenues, expenditures, and financing. Examples of transactions in the form of goods and services are grants in the form of goods, confiscated goods, and consulting services.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT V

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.03

STATEMENT OF CASH FLOWS

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GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.03

STATEMENT OF CASH FLOWS

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the presentation of statement of cash flows, which provides historical information on changes in cash and cash equivalent of a reporting entity by classifying the cash flows based on operating, non-financial asset investing, financing, and non-budgeting activity during one accounting period.

2. The objective of cash flow reporting is to provide information on sources, uses, and changes of cash and cash equivalent during one accounting period and the balance of cash and cash equivalent on the reporting date. The information is presented for accountability and decision making.

Scope

3. The Central and Local Government prepare the Statement of Cash Flows in accordance with this Standard and present the Statement as one of the main financial statements component for each period.

***4. This Standard applies to the preparation of Statement of Cash Flows of central and local government, unit of organization in the central and local government, or other organization, which, in accordance with the regulations or in accordance with the standards, are required to prepare the Statement of Cash Flows, except for the Central/Local Government Business Enterprises whose standards are prescribed separately in the Financial Accounting Standards issued by the Indonesian Institute of Accountants*.**

Benefits of Cash Flow Information

5. The cash flow information is beneficial as indicators of amounts of cash flows in the future, and is also beneficial to evaluate the accuracy of previously estimated of cash flows.

6. The statement of cash flows is also a tool for the accountability of cash inflows and cash outflows during the reporting period.

7. A statement of cash flows, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of a reporting entity and the government financial structure (including the liquidity and solvency).

Definitions

8. The following terms are used in this Standard with the meanings specified:

<u>Accounting period</u> is the financial accountability period of a reporting entity, the period of which is the same as the budget year.

<u>Allotment</u> is a document of budget execution that shows parts of appropriation made available to the agencies and is used to obtain cash from the Central/Local Government General Treasurer (BUN/BUD) in order to finance disbursements during the period of allotment.

<u>Appropriation</u> is a budget approved by the Central/Local House of Representatives (DPR/DPRD) which constitutes a mandate to the President/governor/district head (bupati)/mayor to spend in accordance with the specified objectives.

<u>Assets</u> are economic resources controlled and/or owned by the government as a result of past events and from which economic and/or social benefits in the future are expected to be obtained, either by the government or by the public, and can be measured in monetary unit, including the non-financial resources which are needed to provide services to the public and resources that are maintained for historical and cultural reasons.

<u>Budget</u> is a guideline for government actions comprising plan of revenues, expenditures, transfers, and financing that are measured in Rupiah, which is systematically prepared according to certain classifications for one period.

<u>Cash</u> is cash on hand and demand deposits that can be readily used to finance the government activity.

<u>Cash disbursement</u> is an outflow of all cash from the Central/Local Government General Treasurer.

<u>Cash equivalents</u> are short-term, highly liquid investments that are readily convertible into cash and which are subject to an insignificant risks of changes in value.

<u>Cash Flows</u> are inflows and outflows of cash and cash equivalents within Central Government General Treasurer (BUN) or Local Government General Treasurer (BUD).

<u>Cash receipt</u> is all cash inflow to the Central/Local Government General Treasurer.

<u>Central Government Cash</u> is the depository of central government money as determined by the Minister of Finance as Central Government General Treasurer (BUN) to keep all the central government receipts and disbursements.

Central/Local Government Business Enterprise is a legal business entity, whole or part of which capital is owned by the central/local government.

Cost Method is an accounting method, which records the value of investment based on the acquisition cost.

Equity is the net asset of the government, which is the difference between government assets and liabilities.

Equity Method is an accounting method that records the value of initial investment based on the acquisition cost. The said investment value is then adjusted with the changes in the investor's share on the net assets/equity of the investee that occurs after the investment's initial acquisition.

Exchange Rate is the exchange ratio of two currencies.

Expenditures are all disbursements from the Central/Local Government Cash Account that reduce the current equity in the related budget year period for which repayment will not be received by the government.

Financing activity is some receipts that needs to be repaid and/or disbursements that should be re-received because of the deficit financing or the use of budget surplus, that consequently changes the size and composition of long-term investments, long-term loans, and government debts.

Foreign currency is a currency other than the currency of the reporting entity.

Incoming Transfer is a receipt of cash from other reporting entity, including receipt of fiscal balance funds and revenue sharing funds.

Liabilities are present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources.

Local Government Cash is the depository of local government money as determined by the Local Government General Treasurer (BUD) to keep all the local government receipts and disbursements.

Non-budgeting activity is the activity of cash receiving and disbursing which do not affect the government budget of revenues, expenditures, transfers, and financing activity**.**

Non-financial asset investing activity is the activity of cash receiving and disbursing which are aimed at acquiring and disposing fixed assets and other non-financial assets.

Operating activity is the activity of cash receiving and disbursing for government operation during one accounting period**.**

Outgoing Transfer is a disbursement of cash from a reporting entity to other reporting entity, including disbursement of fiscal balance funds and revenue sharing funds.

<u>Partnership</u> is the agreement between two or more parties that have a commitment to carry out activities which are jointly controlled by using their assets and or business rights.

<u>Reporting currency</u> is the Rupiah that is used in the presentation of financial statements.

<u>Reporting Date</u> is the last date of a certain reporting period.

<u>Reporting Entity</u> is a government unit consisting of one or more accounting entities which according to the statutory regulations is obliged to prepare and submit accountability reports in the form of financial statements.

<u>Reserved Funds</u> are funds reserved to cover the needs that require relatively large funds which cannot be fulfilled within one budget year.

<u>Revenues</u> are all receipts of the Central/Local General Government Cash which add the current equity in the related budget year period that become the right of the government and with no repayment obligation by the government.

Cash and Cash Equivalents

9. Government cash equivalents are held for the purpose of meeting short-term cash needs or for other purposes. To be considered as cash equivalents, short-term investments must be readily convertible to a certain amount of cash and without significant risk of changes in values. Hence, an investment may be qualified as a cash equivalent if such investment has short-term maturity of 3 months or less from the date of acquisition.

10. Transactions between cash and cash equivalents are excluded from statement of cash flows, because these activities are parts of cash management of an entity and are not parts of operating, non-financial assets investing, financing, and non-budgeting activity.

THE CASH FLOWS REPORTING ENTITY

11. A reporting entity is a government unit which consists of one or more accounting entities which according to prevailing statutory regulations is obliged to submit accountability reports in the form of financial statements. This entity includes:

(a) Central Government;

(b) Local Government; and

(c) Organization units in the central/local government or other organization, which according to the prevailing statutory regulations such organization units are obliged to prepare statement of cash flows.

12. The reporting entity, which is obliged to prepare and present statement of cash flows, is the organization unit which has treasury function.

13. The organization unit which has treasury function is the unit determined as Central/Local Government General Treasurer (BUN/BUD) and/or its acting Central/Local Government General Treasurer (Kuasa BUN/BUD).

PRESENTATION OF STATEMENT OF CASH FLOWS

14. A statement of cash flows presents information on cash inflows and cash outflows during a certain period, which is classified based on operating, non-financial assets investing, financing, and non-budgeting activity.

15. The classification of cash flow on operating, non-financial assets investing, financing, and non-budgeting activity enables the users to evaluate the effects of such activity on government cash and cash equivalent position. Such information can also be used to evaluate the relationship between operating, non-financial asset investing, financing, and non-budgeting activity.

16. A certain transaction may affect several activities of cash flow, for example, debt redemption transaction which consists of principal and its interest. The payment of debt principal should be categorized as a financing activity, meanwhile the payment of debt interest should be categorized as an operating activity.

17. The statement of cash flows is illustrated in Attachment V.A-C of this Standard. The illustration is intended to assist the understanding of cash flows and it is not part of this Standard.

Operating Activity

18. Net cash flow of operating activity is an indicator that shows government operating capabilities in generating sufficient cash to finance its operating activity in the future without relying on outside financing sources.

19. The cash inflows from operating activity are mainly generated from:

(a) Taxes;

(b) Non-Taxes Revenue (PNBP);

(c) Grants;

(d) Income from share of profit (such as dividends) from Central/Local Business Enterprise and return from other investment; and

(e) Incoming transfer.

20. The cash outflows for operating activity are mainly used for the following disbursements:

(a) Employee expenditures;

(b) Procurement of goods and services;

(c) Interest;

(d) Subsidy;

(e) Grants;

(f) Social aid;

(g) Other or unexpected expenditures; and

(h) Outgoing transfer.

21. If a reporting entity holds securities which have the same characteristics as inventories, which are purchased to be resold, then the acquisition and sale of the securities are classified as operating activity.

22. If the reporting entity authorizes an allotment for the activity of other entity, whose purpose is not clear whether as a working capital, investment placement, or as financing the current activity, then the disbursement of such allotment should be classified as operating activity. This event should be disclosed in the Notes to the Financial Statements.

Non-financial Assets Investing Activity

23. The cash flows from non-financial assets investing activity represent gross cash receipts and cash payments for acquisition and from disposal of economic resources aimed at increasing and supporting government services for the public in the future.

24. The cash inflows from non-financial assets investing activity consist of:

(a) Sale of fixed assets;

(b) Sale of other assets.

25. The cash outflows for non-financial assets investing activity consist of:

(a) Acquisition of fixed assets;

(b) Acquisition of other assets.

Financing Activity

26. The cash flows from the financing activity reflect gross cash receipts and payments of deficit financing or use of budget surplus, whose purpose is to predict claims from other parties on government cash flows and government claims to other parties in the future.

27. The cash inflows from financing activity are among others, receipts of cash from:

(a) Borrowings;

(b) Sale of government bonds;

(c) Divestment;

(d) Repayment of loan;

(e) Liquidation of reserved funds.

28. The cash outflows for financing activity among others are:

(a) Investment placement by the government;
(b) Payment of principal of the borrowing;
(c) Issuance of long-term loan; and
(d) Establishment of reserved fund.

Non-budgeting Activity

29. The cash flows from non-budgeting activity represent gross cash receipts and disbursements, which do not affect the government budgeted revenues, expenditures, and financing. Examples of cash flows from non-budgeting activity among others are, third party withheld (PFK) and transfers of funds. Third party withheld (PFK) represents cash which is derived from the amount of funds deducted from Payment Authorization (SPM) or received in cash for third parties, for example Pension Fund (Taspen) and Health Insurance (Askes) deductions. Transfer of funds represents cash transactions between accounts in central/local government cash.

30. The incoming cash flows from non-budgeting activity include PFK receipts and incoming transfers.

31. The outgoing cash flows from non-budgeting activity include third party withheld (PFK) disbursements and outgoing transfers.

REPORTING OF CASH FLOWS FROM OPERATING, NON-FINANCIAL ASSETS INVESTING, FINANCING, AND NON-BUDGETING ACTIVITY

32. The reporting entity separately presents the main categories of gross cash receipts and disbursements from operating, non-financial assets investing, financing, and non-budgeting activity, except those stated in paragraph 35.

33. The reporting entity may present cash flows from operating activity by using:

(a) Direct method

This method shows main classifications of gross cash receipts and disbursements.

(b) Indirect method

In this method, the surplus or deficit is adjusted in accordance with non-cash operating transactions, deferral or accrual of past/future cash receipts or payments, and cash revenue and expenditure elements related with non-financial assets investing and financing activity.

34. Central/local government reporting entity is suggested to use the direct method in reporting cash flows from operating activity. The benefits of using the direct method are as follow:

(a) It provides better information to estimate future cash flows;
(b) It is easier to be understood by the report users; and
(c) It provides data on groups of gross cash receipts and disbursements that are directly obtained from accounting records.

REPORTING OF CASH FLOWS BASED ON NET CASH FLOWS

35. Cash flows that emerge from operating activity may be reported based on net cash flows in the following conditions:

(a) Cash receipts and disbursements for the interest of the beneficiary reflect more other parties activity rather than government activity. One of the example is the result generated from joint operation.

(b) ***Cash receipts and disbursements of high turnover, of large volume, and of short period transactions.***

FOREIGN CURRENCY CASH FLOW

***36. The cash flows that result from foreign currency transactions should be recorded in Rupiah by converting foreign currency into Rupiah based on the exchange rate on the transaction date*.**

37. The cash flows that result from overseas reporting entity activity should be converted into Rupiah based on the exchange rate on the transaction date.

38. Unrealized gains or losses resulted from the change of foreign currency exchange rate do not affect the cash flows.

INTEREST AND SHARES OF PROFIT

39. The cash flows from transactions of interest revenues receipts and interest of borrowing expenditures disbursements and receipts of revenues from shares of profits in central/local government business enterprises should be separately disclosed. Each related account to such transactions should be consistently classified from period to period into operating activity.

40. The amount of interest revenue receipts which is reported as cash flows in the operating activity is the amount of cash actually received from interest revenue in the related accounting period.

41. The amount of disbursement on payment of interest on debt which is reported as cash flows in the operating activity is the amount of cash disbursed for interest payment in the related accounting period.

42. The amount of revenue received from shares of profit from central/local government business enterprises which is reported as cash flows

in operating activity is the amount of cash actually received from shares of profit from central/local government business enterprises in the related accounting period.

INVESTMENTS IN CENTRAL/LOCAL GOVERNMENT BUSINESS ENTERPRISES AND PARTNERSHIP

43. Investments in central/local government business enterprises should be recorded by using either one of these two methods, namely the equity method or cost method**.**

44. Government investments in central/local government business enterprises and partnership are recorded by using the cost method, in the amount of their acquisition cost.

45. The entity reports the long-term investment placement in central/local government business enterprises and partnership as the cash flow of financing activity.

ACQUISITIONS AND DIVESTMENTS OF CENTRAL/LOCAL GOVERNMENT BUSINESS ENTERPRISES AND OTHER OPERATIONAL UNITS

46. The cash flows from acquisitions and divestments of central/local government business enterprises and other operational units must be separately presented in financing activity.

47. The entity discloses all acquisitions and divestments of central/local government business enterprises and other operational units during a reporting period, whose disclosure consists of:

(a) The values of acquisition or divestment;

(b) Parts of the acquisition or divestment prices paid in cash or cash equivalent;

(c) The amount of cash and cash equivalent in the acquisition or divestment of central/local government business enterprises and other operational units; and

(d) The amount of assets and debts other than cash or cash equivalent, which are recognized in the acquisition or divestment of central/local government business enterprises and other operational units.

48. Separate presentation of cash flows from central/local government business enterprises and other operational units in a specific account, will ease to distinguish the cash flows from that of operating, non-financial assets investing, financing and non-budgeting activity. The incoming

cash flows from such divestments are not deducted by the acquisition costs of other investments.

49. Assets and debts other than cash or cash equivalent from acquired or divested central/local government business enterprises and other operational units need to be disclosed when the transactions have been previously recognized as assets or debts by central/local government business enterprises and other operational units.

NON-CASH TRANSACTIONS

50. Investing and financing transactions, which do not generate receipts or disbursements of cash and cash equivalent, should not be reported in the Statement of Cash Flows. Such transactions should be disclosed in the Notes to the Financial Statements.

51. The exclusions of non-cash transactions from the Statement of Cash Flows is consistent with the purpose of the Statement of Cash Flows, since non-cash transactions do not affect cash during the related period. An example of a non-cash transaction that does not affect the Statement of Cash Flows is the acquisition of assets through exchange or grant.

COMPONENTS OF CASH AND CASH EQUIVALENT

52. The reporting entity discloses the components of cash and cash equivalent in the Statement of Cash Flows in the same amount with the related accounts in the Statement of Financial Position.

OTHER DISCLOSURES

53. The reporting entity discloses significant amount of cash and cash equivalent balance which is restricted by the entity. Such restriction is disclosed in the Notes to the Financial Statements.

54. Additional information related to cash flows will be useful for the users in understanding the financial position and the liquidity of a reporting entity.

55. If the budgeted appropriation or allotment authorization is prepared on cash basis, the Statement of Cash Flows will facilitate its users in understanding the relationship between the government activity or program and the government budgeting information.

EFFECTIVE DATE

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

PRESIDEN
REPUBLIK INDONESIA

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT VI

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.04

NOTES TO THE FINANCIAL STATEMENTS

PRESIDEN
REPUBLIK INDONESIA

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PRESIDEN
REPUBLIK INDONESIA

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.04

NOTES TO THE FINANCIAL STATEMENTS

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the presentation and disclosure required on the Notes to the Financial Statements.

Scope

2. This Standard is applied to:

(a) The general purpose financial statements as prepared by the reporting entity;

(b) Financial statements that are expected to become the general purpose financial statements as prepared by non-reporting entity.

3. General purpose financial statements are statements intended to fulfill the needs of users on financial accounting information. The users are the public, legislative bodies, supervisory institutions, auditors, parties providing or having a role in the process of donations, investments and loans, and the government. The financial statements include the financial statements that are separately presented or constitute a part of the financial statements that are presented in other public documents such as an annual report.

4. This Standard applies to the reporting entity in preparing the financial statements of the central government, local governments, and the consolidated financial statements excluding central/local government business enterprises.

5. An entity which is not a reporting entity may present general purpose financial statements. In that case, the entity must apply this Standard, although it does not fall in that criteria according to the regulation and/or accounting standard which regulate the governmental reporting entity.

DEFINITIONS

6. The followings are terms used in this Standard with the meanings specified:

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

***Accrual Basis* means a basis of accounting under which transactions and other events are recognized when they occur, and not only when cash or its equivalent is received or paid.**

***Assets* are economic resources controlled and/or owned by the government as a result of past events and from which economic and/or social benefits in the future are expected to be obtained, either by the government or by the public, and can be measured in monetary units, including the non-financial resources which are needed to provide services to the public and resources that are maintained for historical and cultural reasons.**

***Budget* is a guideline for government actions comprising plan of revenues, expenditures, transfers, and financing that are measured in Rupiah, which is systematically prepared according to certain classifications for one period.**

***Cash Basis* means a basis of accounting under which transactions and other events are recognized when cash or its equivalent is received or paid.**

***Equity* is the net assets of the government which is the difference between government assets and liabilities.**

***Expenditures* are all disbursements from the Central/Local Government Cash Account that reduce the current equity in the related budget year period for which repayment will not be received by the government.**

***Financing* is any receipt that needs to be repaid and/or disbursements that shall be re-received, either during the budget year or the subsequent budget years, which in government budgeting is mainly intended to cover deficits or to make use of budget surplus.**

***Liabilities* are present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources.**

***Materiality* is a condition in which information omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.**

***Reporting Entity* is a government unit consisting of one or more accounting entities which according to the statutory regulations is obliged to prepare and submit accountability reports in the form of financial statements.**

***Revenues* are all receipts of the Central/Local General Government Cash which add the current equity in the related budget year period that become the right of the government and with no repayment obligation by the government.**

<u>Revenue and Expenditure Budget for Local Government (APBD)</u> is an annual financial plan that has been approved by the Local House of Representatives (DPRD).

<u>Revenue and Expenditure Budget for Central Government (APBN)</u> is an annual financial plan that has been approved by the Central House of Representatives (DPR).

GENERAL PROVISIONS

7. Each reporting entity must present Notes to the Financial Statements as an inseparable part of the general purpose financial statements.

8. Notes to the Financial Statements are intended that readers in general can understand the financial statements, not only limited to certain readers or the management of the reporting entity. Therefore, the financial statements may contain information that is potentially misunderstood by the readers. To avoid such misunderstanding, the Notes to the Financial Statements should be made in such a way as to contain information that the readers can easily understand the financial statements.

9. The misunderstanding may be due to the perception of the readers about the financial statements. Readers that are oriented to the budgetary concept may potentially misunderstand the accrual accounting concept. Readers that are accustomed to the commercial sector financial statements tend to view the government financial statements as those of a corporation. In this case, general provisions and a reference to the accounts of the financial statements are important for the readers of the financial statements.

10. Additionally, the disclosure of the accounting basis and the applied accounting policy will assist the readers to avoid any misunderstanding in reading the financial statements.

STRUCTURE AND CONTENTS

11. Notes to the Financial Statements must be presented systematically. Each account in the Statement of Budget Realization, the Statement of Financial Position, and the Statement of Cash Flow must have a cross-reference to the relevant information in the Notes to the Financial Statements.

12. Notes to the Financial Statements contain the explanation or the detailed list or the analysis on the value of an account which is presented in the Statement of Budget Realization, the Statement of Financial Position, and the Statement of Cash Flow. Also contained in the Notes to the Financial Statements is the presentation of information which is obligatory and is suggested by the Government Accounting Standards as well as other

disclosures which are required for fair presentation of the financial statements, such as contingent liabilities and other commitments.

13. Notes to the Financial Statements present information on the explanation of the accounts of the financial statements for the purpose of sufficient disclosures, among others:

(a) The policy on fiscal/finances, macroeconomics, the achievement of target of the Revenue and Expenditure Budget for Central Government (APBN)/Revenue and the Expenditure Budget for Local Government (APBD), along with the obstacles and barriers encountered in achieving the target;

(b) The summary of the achievement of the financial performance during the reporting year;

(c) The basis for preparing the financial statements and the selected accounting policies to be applied to the transactions and other important events;

(d) The disclosure of information as prescribed by the Government Accounting Standards which is not presented on the face of the financial statements;

(e) The disclosure of information on assets and liabilities accounts in connection with the application of accrual basis on revenues and expenditures and the reconciliation thereof with the application of cash basis;

(f) The additional information required for a fair presentation, which is not presented on the face of the financial statements.

14. The disclosure of each account in the financial statements will be in line with the prevailing standard which prescribes the disclosure for the relevant account. For example, the Government Accounting Standard on Accounting for Inventories requires the disclosure of accounting policy applied in measuring the inventories.

15. To make it easier for the readers of the report, disclosure on the Notes to the Financial Statements may be presented by way of narration, charts, graphics, lists and schedules or other appropriate forms which briefly and comprehensively summarize the financial condition and position of the reporting entity.

The Presentation of Information on Fiscal/Financial Policy, Macroeconomics, Achievement of Target of the Revenue and Expenditure Budget for Central Government (APBN)/Revenue and the Expenditure Budget for Local Government (APBD), along with the Obstacles and Barriers Encountered in Achieving the Target

16. The Notes to the Financial Statements should assist its readers to understand the cash condition and position of the reporting entity as a whole.

17. To assist the readers of the financial statements, the Notes to the Financial Statements must present information that answers the questions such as how financial/fiscal position and condition of the reporting entity are developed, and how such are achieved.

18. In order to answer the above questions, the reporting entity, in connection with the realization of the budget, should present information on the important differences of the position and condition of financial/fiscal of the ongoing period against the preceding period, against the budget, and against other plans. Included in the explanation are the differences of the macroeconomics assumptions used in the formulation of the budget compared to the realization thereof.

19. Fiscal policies which must be disclosed in the Notes to the Financial Statements are government policies in increasing revenues, in driving the efficiency of expenditures, and in determining the sources or in utilizing the financing, for example, the elaboration of the strategic plan in the formulation policy of APBN/APBD, targets, programs and priorities of budget, tax intensification/extensification policies, market development of Government Bond (SUN).

20. The macroeconomics condition that needs to be disclosed in the Notes to the Financial Statement is the assumptions of macroeconomics indicators which are used in the formulation of the Central/Local Government Budget (APBN/APBD) including the level of their achievement thereof. The macroeconomics indicators, among others, are the Gross Domestic Product/Gross Regional Domestic Product, the economic growth, the inflation rate, the exchange rate, the oil price, the interest rate, and the balance of payment.

21. Notes to the Financial Statements must explain the significant budget changes during the current period compared to the initial budget approved by the House of Representatives (DPR)/Local House of Representatives (DPRD), the existing obstacles and barriers in achieving the pre-determined targets, as well as other matters the

management of the reporting entity considers necessary to be understood by the readers of the financial statements.

22. During an ongoing budget period, due to certain reasons and conditions, the reporting entity may amend the budget with prior approval by DPR/DPRD. In order that the readers are able to keep up with the condition and development of the budget, an explanation on the existing changes, as approved by the Central/Local House of Representative (DPR/DPRD), compared to the original budget will assist the readers in understanding the condition of the budget and the financial condition of the reporting entity.

23. Under a certain condition the reporting entity is unable to meet the predetermined target, for example, the number of units of constructed elementary school buildings. An explanation on the existing obstacles and barriers, for example, the lack of available areas, needs to be described in the Notes to the Financial Statements.

24. To assist the readers of the financial statements, the management of the reporting entity may consider it is necessary to provide other financial information considered important to be informed to the readers, for example, the obligations requiring the availability of funds in the budget for the next period.

The Presentation of Summary of the Achievement of Financial Performance during the Reporting Year

25. The financial performance of the reporting entity in the Statement of Budget Realization must summarize the indicators and the achievements of the operational activities performance in term of financial dimension in a certain reporting period.

26. The needs of the users of the government financial statements differ from those of the non-government users. The needs of government financial statement users do not only view the reporting entity from the perspective of the net assets changes, but further, the government financial statement users are very interested in the government performance compared to the predetermined targets.

27. The achievement of the predetermined financial performance is objectively explained in the Notes to the Financial Statements. The performance achievement can be learnt from the level of efficiency and effectiveness of a program. Efficiency can be measured by comparing the output against input. Whereas, effectiveness can be measured by comparing the result outcome against the predetermined target.

28. The explanation on the financial performance needs to be linked to the objectives and purposes of the government strategic plan and indicators according to the prevailing statutory regulations. The summary on the financial performance in the Notes to the Financial Statements should:

(a) Describe the strategy and resources utilized in achieving the objectives;

(b) Provide a clear description on the realization and the financial performance plan in a reporting entity; and

(c) Describe the procedures formulated and executed by the management in order to be able to provide reasonable assurance that the financial performance information reported is relevant and reliable.

29. The explanation on the financial performance should:

(a) Include both positive and negative results;

(b) Present relevant historical data;

(c) Compare the results achieved with the predetermined objectives and plans;

(d) Present other explanatory information which, in the management opinion, is believed necessary for the readers of the financial statements to understand the indicators, results, and existing differences against the objectives or plans.

30. In order to further increase the use of information, a reporting entity must also include the explanation on what needs to be undertaken and the plan to increase the performance of the program.

31. The limitation and important difficulties in connection with the measurement and reporting of financial performance must be disclosed according to the relative relevance of the performance indicators as described in the Notes to the Financial Statements. The relevant limitation will vary from one program to another, however, usually the factors discussed should include, among others that:

(a) The performance is usually unable to be disclosed as a whole only by using one indicator;

(b) Performance indicators do not show any reason why the performance is at the reported level; and

(c) Exclusive observation of the quantitative indicators often results in unwanted consequences.

32. Therefore, performance indicators must be completed with the appropriate explanatory information. This explanatory information will assist the users to understand the reported indicators, obtain the description on the financial performance of the reporting entity, and evaluate the importance of the underlying factors which may affect the reported financial performance.

33. The explanatory information may include, for example, the information on the substantial factors which are beyond the control of the concerned entity, and information on the factors which cause the entity having important influence.

The Basis of the Presentation of the Financial Statements and the Disclosure of Financial Accounting Policies

34. In presenting the Notes to the Financial Statements, the reporting entity must disclose the basis for the presentation of the financial statements and the accounting policy.

Accounting Basic Assumptions

35. Certain basic assumptions or certain basic concepts of accounting which become the basis for the formulation of the financial statements, are normally not specifically disclosed. The disclosure will be required if the entity does not comply with such assumptions or concepts, and it should be accompanied with reasons and explanations.

36. In line with the Conceptual Framework of Government Accounting, basic assumptions in financial statements in the government environment are premises which are accepted as truth without having to be proven in order that the accounting standards can be applied, which consist of:

(a) Independency of the entity;
(b) Going Concern of the entity; and
(c) Monetary measurement.

37. The independency of the entity means that each unit of the organization is considered as an independent unit and has the obligation to present financial statements so that there will be no disorder among the government institution units in reporting their financial activities. One of the indicators on the compliance of this assumption is the entity's authority to formulate its budget and to execute it with full responsibility. The entity is responsible for the management of assets and other resources beyond the Statement of Financial Position for the interest of its responsibility jurisdiction, including for the loss or damage of the assets and resources, for the receivable and payable due to the entity's decision making, and the degree of completion of the predetermined program.

38. The financial statements are prepared with the assumption that the existence of the reporting entity will be sustained (going concern). Therefore, it is assumed that the government does not intend to liquidate the reporting entity in the near future.

39. The financial statements of the reporting entity must present each activity which is assumed monetarily measurable. This is necessary so that some analysis and measurement in accounting can be performed.

Users of the Financial Statements

40. The financial statements provide information for different users, such as members of the legislature, creditors and employees. Other important users are the suppliers, customers, trade organizations, financial analysts, prospective investors, underwriters, statisticians, economists, and the regulatory authorities.

41. In conjunction with paragraph 34 above, the users of the financial statements should be informed about the selected accounting policy, as a part of the information required to make some assessment, financial decision, and other needs. They cannot make any reliable assessment if the financial statements do not clearly disclose the important selected accounting policy in the preparation of the financial statements.

42. The disclosure of the accounting policy in the financial statements is intended so that the financial statements are understandable. The disclosure of such policy constitutes an inseparable part of the financial statements which is very helpful to the users of the financial statements, since some inappropriate or incorrect treatments on the components of the Statement of Budget Realization, Statement of Financial Position, Statement of Cash Flow, or other statements are biased from the selected accounting policy.

Accounting Policy

43. The consideration and/or selection of an accounting policy should be adjusted to the condition of the reporting entity. The correct targeted and selected policy will depict accurately the economic reality of the reporting entity either in its financial or activity condition.

44. There are three considerations for the management selection of the most accurate accounting policy and the preparation of the financial statements:

(a) Sound Judgment
Many transactions are subject to uncertainty. Such condition should be acknowledged in the preparation of financial statements. The due care attitude does not justify the creation of secret or hidden reserves.

(b) Substance over Form
Transactions and other events should be accounted for and presented in accordance with the nature of the transactions and the reality of the circumstance, and should not only refer to the legal form of the transaction or event.

(c) Materiality
The financial statements should sufficiently disclose all material components that influence the evaluations or decisions.

Contents of Accounting Policy

45. The disclosure of accounting policy must identify and explain the accounting principles used by the reporting entity and the methods of application thereof, which materially affect the presentation of the Statement of Budget Realization, Statement of Financial Position, and Statement of Cash Flow. Such disclosure should also cover important considerations in the selection of the appropriate principles.

46. Generally, the accounting policy in the Notes to the Financial Statements explains the following matters:

(a) Reporting entity;
(b) Accounting basis which underlies the preparation of the financial statements;
(c) Measurement basis which is used in the preparation of the financial statements;
(d) The extent the reporting entity implement the relevant accounting policies in connection with the provisions of the Government Accounting Standards during transitional period;
(e) Each respective accounting policy which is required to understand the financial statements.

47. The reporting entity disclosure about the general purpose financial statements will be very helpful to the readers of the statements to understand the financial information presented in the financial statements. The readers of such statements will have certain framework in analyzing the existing information. The lack of information about the reporting entity and the components thereof will potentially create the readers misunderstanding in identifying the existing problems.

48. Although the Conceptual Framework of Government Accounting suggests the use of a certain accounting basis in preparing the government financial statements, there must be some disclosure statement in the Notes to the Financial Statements on the use of an accounting basis which underlies the government's financial statements. Such statement also includes its conformity with the Conceptual Framework of Government Accounting. This will facilitate the readers to understand the report without having to look back the accounting basis as provided for in the Conceptual Framework of Government Accounting.

49. The users of the financial statements need to know the basis of measurement used in the presentation of the financial statements. If there are more than one basis of measurement used in the preparation of the financial statements, then the information presented should be adequate to indicate which assets and liabilities use such measurement basis.

50. In determining whether or not it is necessary to disclose an accounting policy, the management should consider the benefit of such

disclosure in assisting the users to understand each transaction reflected in the financial statements. The consideration in paragraph 44 may serve as a guideline in considering the accounting policies that need to be disclosed. The accounting policies that have to be presented in the Notes to the Financial Statements include, but not limited to, the followings:

(a) Recognition of revenues;
(b) Recognition of expenditures;
(c) Principles on the preparation of a consolidated statement;
(d) Investment;
(e) Recognition and disposal/write off of tangible and intangible assets;
(f) Construction contracts;
(g) Capitalization policy on expenditure;
(h) Partnership with third parties;
(i) Research and development expenses;
(j) Inventories, whether for sale or for self-consumed;
(k) Establishment of reserved funds;
(l) Establishment of employee welfare funds;
(m) Description of foreign currency and hedging.

51. Each entity needs to consider the types of activities and policies that need to be disclosed in the Notes to the Financial Statements, for example, the disclosure of information on the recognition of tax revenues, retributions and other types of obligatory contributions, the translation on foreign currency and the accounting treatment on the difference in exchange rates.

52. An accounting policy may become significant although the value of the presented accounts in the current period and that of the preceding period is immaterial. Besides, disclosure also needs to be made on the selected and applied accounting policy which is not stipulated in this Standard.

53. The financial statements should reflect the relation of the figures to the preceding period. If there are changes in accounting policy which have material impact, the policy changes and the impact of the changes need to be disclosed quantitatively.

54. The changes in accounting policy which have no material impact in the year of changes need also be disclosed if such changes have material impact in future years.

The Disclosure of Information Required by the Government Accounting Standards Which is Not Presented on the Face of the Financial Statements

55. Notes to the Financial Statements must present the information required and suggested by the Government Accounting Standards as well as other disclosures deemed necessary for the fair

presentation of the financial statements, such as the contingent liabilities and other commitments. Information disclosure in the Notes to the Financial Statements must provide other information not presented in any other part of the financial statements.

56. Due the limited assumptions and methods of measurement used, several transactions on circumstances believed to have important impacts on the reporting entities cannot be presented on the face of the financial statements, such as the contingent liabilities. In order to provide a more comprehensive picture, the readers of the report need to be reminded of the possibility of the occurrence of an event which may affect the financial condition of the reporting entities in the subsequent period.

57. Information disclosure in the Notes to the Financial Statements must present information that does not contain repetitive details (for example the details of the inventories, details of fixed assets, or details of expenditures) as has been presented on the face of the financial statements. In several cases, the disclosure of the accounting policy, in order to increase the readers comprehension, must refer to the details presented in other sections of the financial statements.

Information Disclosure of the Respective Assets and Liabilities Accounts Due to the Application of Accrual Basis on Revenues and Expenditures and the Reconciliation thereof with Cash Basis Application

58. Reporting entity that prepares the accrual-based financial statements on revenues and expenditures must disclose the respective assets and liabilities accounts arising from the application of accrual basis and present the reconciliation thereof with the application of cash basis.

59. The Conceptual Framework of Government Accounting in paragraphs 26 and 76 allows the reporting entity to prepare its financial statements under an accrual basis for revenues and expenditures. This reporting entity must provide for the additional detailed information on the output of the entity and the outcome in the form of financial performance indicators, the Statement of Financial Performance, program evaluation and other statements concerning the achievement of financial performance of the entity during the reporting period. This is intended that the readers of the report are able to understand the assets and liabilities accounts arising due to the application of accrual basis on the revenues and expenditures accounts, such as revenues received in advance, expenses paid in advance, and depreciation expenses. Such assets and liabilities accounts arise due to the application of accrual basis to the revenues and expenditures accounts.

60. The objective of the reconciliation is to present the connection between the Statement of Financial Performance and the Statement of

Budget Realization. The reconciliation begins with the increase/decrease of equity derived from the Statement of Financial Performance prepared under accrual basis. Such amount will then be adjusted with the transaction of the increase and decrease of net assets due to the use of accrual basis which then results in the same amount as presented at the end of the Statement of Budget Realization.

61. To make it easier for the users, the reconciliation list and the explanation on the existing conditions in paragraphs 59 and 60 must be presented as part of the Notes to the Financial Statements.

Other Disclosures

62. Notes to the Financial Statements must also disclose the information which, if not disclosed, could mislead the readers comprehension of the report.

63. A reporting entity discloses the followings, if they are not yet disclosed in any other section of the financial statements, namely:

(a) the domicile and the legal charter of the entity as well as the jurisdiction where such entity is located;
(b) the explanation on the nature of the operations of the entity and the core activities;
(c) the provisions of the statutory regulations which become the basis for the operational activities.

64. Notes to the Financial Statements must disclose important events during the reporting period, such as:

(a) the replacement of government management during the current year;
(b) the errors of the preceding management which have been corrected by the new management;
(c) the commitments or contingencies that cannot be presented in the Statement of Financial Position;
(d) the merger or expansion of the entity during the current year; and
(e) Events having social impacts, such as strikes that the government has to overcome.

65. Disclosures which are obliged in each standard apply as complements to this Standard.

STRUCTURE

66. In order that the readers are able to understand and compare the financial statements of a certain reporting entity to that of other entities, then the Notes to the Financial Statements are usually presented under the following structure:

(a) Fiscal/financial Policy, macroeconomics, the achievement of the targets of Revenue and Expenditure Budget for Central/Local Government (APBN/APBD);
(b) summary of financial performance achievement;
(c) important accounting policies:
   i. reporting entity;
   ii. the accounting basis underlying the preparation of the financial statements;
   iii. measurement basis used in the preparation of the financial statements;
   iv. the conformity of the accounting policies applied by the reporting entity with the prescribed Government Accounting Standards;
   v. each specific accounting policy required for understanding the financial statements.
(d) Explanation of the accounts of the financial statements:
   i. details and explanation of each account of the financial statements;
   ii. disclosure of information prescribed by the Government Accounting Standards which has not been presented on the face of the financial statements.
(e) For the reporting entities that use accrual basis, the disclosure of assets and liabilities accounts arising in connection with the application of accrual basis on the revenues and expenditures and the reconciliation thereof with the application of cash basis;
(f) Other additional information as needed, such as the general description of the local entity.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT VII

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS

STATEMENT NO.05

ACCOUNTING FOR INVENTORIES

PRESIDEN
REPUBLIK INDONESIA

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PRESIDEN
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GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.05

ACCOUNTING FOR INVENTORIES

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories and other information considered necessary to be presented in the financial statements.

Scope

2. This Standard is applied to the presentation of all inventories in the general purpose financial statements where the revenues, expenditures, transfers, and financing accounts are prepared and presented on a cash basis and the assets, liabilities, and equity accounts are on accrual basis. This Standard is applied to all the central and local government entities excluding Central/Local Government Business Enterprises (BUMN/BUMD).

3. Central/Local Government Business Enterprises (BUMN/BUMD) are required to apply the Financial Accounting Standards issued by the Indonesian Institute of Accountants.

4. This Standard prescribes the accounting treatment on inventories of the central and local governments, that covers:

(a) Definition;
(b) Recognition;
(c) Measurement; and
(d) Disclosure.

DEFINITIONS

5. The following are terms used in this Standard with the meanings specified:

<u>Assets</u> are economic resources controlled and/or owned by the government as a result of past events and from which economic and/or social benefits in the future are expected to be obtained, either by the

government or by the public, and can be measured in monetary units, including the non-financial resources which are needed to provide services to the public and resources that are maintained for historical and cultural reasons.

Central/Local Government Business Enterprise is a legal business entity, which all or part of its capital is owned by the central/local government.

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions.

Inventories are current assets in the form of goods or supplies that are intended to support the operational activities of the government, and the goods intended for sale and/or to be delivered for public services.

GENERAL

6. Inventories are tangible assets in the form of:

(a) Goods or supplies that are used in running the government operational activities;

(b) Materials or supplies that are used in the production process;

(c) Work in process that are intended for sale or to be delivered to the public;

(d) Goods that are stored for sales or to be delivered to the public in the course of rendering governmental activities.

7. Inventories may include goods or supplies purchased and stored for use, for example consumable goods such as office supplies, non-consumable goods such as equipment components and pipes, and used goods such as used components.

8. In the event the government produces its own goods, inventories also include goods that are used in the production process such as materials for the production of agricultural equipments.

9. Unfinished goods in the production process are recorded as inventories, for example half-finished agricultural equipments.

10. Inventories may include:

(a) Consumable goods;

(b) Ammunition;

(c) Maintenance materials;

(d) Spare parts;

(e) Inventories for strategic/emergency purposes;

(f) Excise stamps and other stamps;

(g) Raw materials;

(h) Work in process;

(i) Land/building for sale or to be delivered to the public;

(j) Livestock animals and plantation, for sale or to be delivered to the public.

11. In the event the government stores goods for the purpose of strategic reserves such as energy reserves (for example oil) or for the emergency purposes such as food reserves (for example rice), those goods are recognized as inventories.

12. Livestock animals and plantation for sale or to be delivered to the public are among others cows, horses, fish, rice seedlings, and plant seeds.

13. Damaged or obsolete inventories are not reported in the Statement of Financial Position, but are disclosed in the Notes to the Financial Statements.

RECOGNITION

14. The inventories are recognized at the time the potential future economic benefits are acquired by the government and have value or cost that can be reliably measured.

15. The inventories are recognized at the time of receipt or when the ownership right and/or the control have been transferred.

16. At the end of the accounting period, the inventories will be recorded based on physical inventory taking.

17. The raw materials and supplies owned by a self-construction project that are charged to the account of construction in progress may not be recorded as inventory.

MEASUREMENTS

18. The inventory is presented at:

(a) The acquisition cost if it is acquired through purchase;

(b) The standard cost if it is acquired through self-production;

(c) ***Fair value, if it is acquired through other means such as donation/seizure.***

19. The acquisition cost of the inventory comprises the purchase price, transportation cost, handling cost, and other costs that can be directly charged to the inventory acquisition. Discounts, rebates, and others similar reduction will reduce the acquisition cost.

20. The purchase value used will be the latest acquired inventory acquisition cost.

21. Inventories with a nominal value and intended for sale, such as excise stamps, will be valued by the latest acquisition cost.

22. The inventory standard cost covers direct costs associated with the produced inventory and indirect costs allocated systematically based on the measures used in formulating the activities and budget plan.

23. Livestock animals and plantation in breeding should be valued by using the fair value.

24. The fair price/value of the inventory covers the exchange value of the assets or settlement of obligations between the parties that understand and are willing to enter into a fair transaction.

DISCLOSURE

25. The financial statements will disclose:

(a) The accounting policies used in the measurement of inventories;

(b) Further explanation of the inventories such as goods or supplies used in public services, goods or equipment used in the production process, goods that are stored for sale or to be delivered to the public, and goods that are still in the process of production that are intended for sale or to be delivered to the public;

(c) The physical condition of the inventory.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

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Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT VIII
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.06

ACCOUNTING FOR INVESTMENTS

PRESIDEN
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GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.06
ACCOUNTING FOR INVESTMENT

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the accounting treatment for investment and the disclosure of other important information which should be presented in the financial statements.

Scope

2. This standard should be applied to the presentation of all government investments in the general purpose financial statements that are prepared and presented on cash basis for the recognition of revenues, expenditures, transfers, and financing as well as accrual basis for the recognition of assets, liabilities, and equity according to the Government Accounting Standards.

3. This standard applies to the reporting entity in preparing the financial statements of the central government, the local government, and the consolidated financial statements, excluding the central/local government business enterprises.

4. This standard prescribes the accounting treatment of investment of the central and local government, either for the short-term or for the long-term investment, that covers time of recognition, classification, measurement, and the method of valuation of investment, and also the disclosure thereof in the financial statements.

5. This standard does not prescribe:

(a) Investment in an associate;
(b) Joint Cooperation (KSO); and
(c) Investment in property

DEFINITIONS

6. The followings are terms used in this standard with the meanings specified:

Associated companies are companies in which the investors have significant influence and are not subsidiary companies or joint venture companies of their investors.

Central/Local Government Business Enterprise are legal business entities, whole or part of which capital is owned by the central/local governments.

Cost Method is an accounting method which records the value of investment based on the acquisition cost.

Equity Method is an accounting method that records the value of initial investment based on the acquisition cost. The said investment value is then adjusted with the changes in the investor's share on the net assets/equity of the investee that occurs after the investment's initial acquisition.

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions.

Historical value is the amount of cash or cash equivalent paid/incurred or the fair value based on certain considerations in order to obtain an investment asset at the time of acquisition.

Investment Costs are all costs incurred by the investing entity in acquiring an investment such as broker commission, bank charges, legal fees, and other charges from the stock exchange.

Investments are assets intended to gain economic benefits such as interest, dividend, and royalty, or social benefits, for improving government capability in servicing the public.

Long term investments ***are investments intended to be owned for more than 12 (twelve) months.***

Market value ***is the amount that can be obtained from the sales of an investment in an active market between independent parties.***

Nominal value ***is the value stated on the marketable securities such as the value stated on each stock and bond.***

Non-permanent investments ***are long-term investments that are not included in permanent investments, and are intended to be owned not-continuously.***

Permanent investments ***are long-term investments intended to be owned continuously.***

Short-term investments ***are investments that can be immediately converted into cash and are intended to be owned for 12 (twelve) months or less.***

Social benefits ***meant in this standard are the benefits that cannot be directly measured in monetary units but affect the improvement of government's services to the vast community as well as specific community groups.***

TYPES OF INVESTMENT

7. The government invests for several reasons among others are to utilize the budget surplus to obtain earnings in the long-term, and to make use of idle funds in short-term investments for the sake of cash management.

8. There are several types of investments that are evidenced with certificates or other similar documents. The nature of an investment may be in the form of the purchase of debt securities, either short-term or long-term, and also equity instruments.

CLASSIFICATION OF INVESTMENT

9. Government investment may be divided in two namely short-term investment and long-term investment. Short-term investment is classified into current assets whereas the long-term investment is classified into the non-current assets.

10. Short-term investment has to comply with the following characteristics:

(a) Can be immediately traded/liquidated;

(b) The investment is intended for cash management, which means that the government can sell the investment when a need for cash arises;

(c) Low risk.

11. With due observance to the said criteria mentioned in paragraph 10, therefore, the government purchase of high risk commercial papers is not included in short-term investments since it is affected by the fluctuating market price. The types of investments that are not included in the short-term investments are, among others:

(a) Commercial papers that are purchased by the government for the purpose of controlling a business entity, such as the purchase of commercial papers in order to increase the share ownership in a business entity;

(b) Commercial papers that are purchased by the government for the purpose of maintaining good institutional relationship with other parties, such as the purchase of commercial papers that are issued by an institution, domestic or foreign, to show the participation of the government; or

(c) Commercial papers that are not intended to be liquidated in fulfilling short-term cash requirement.

12. Investment that can be classified as short-term investment, consists of, among others:

(a) Time Deposits with three to twelve months terms and/or those that can be extended automatically (revolving deposits);

(b) The purchase of short-term government Bonds (SUN) by the central government as well as the local governments and the purchase of Certificates of Bank Indonesia (SBI).

13. Long-term investments are divided according to the nature of the investments thereof, namely permanent and non-permanent. Permanent investments are the long-term investments that are meant to be owned continuously, whereas non-permanent

investments will be long-term investments that are not meant to be owned continuously.

14. The meaning of the word continuously is that the investment is meant to be owned continuously without any intention to trade or to withdraw it. Whereas the meaning of the word not continuously is that the ownership of investment with a term more than 12 (twelve) months is not meant to be owned continuously or there is intention to trade or to withdraw it.

15. Permanent investments made by the government are investments that are not meant for trading, but to obtain dividends and/or significant influence in the long run and/or to maintain institutional relationship. These permanent investments can be in the form of:

(a) The government capital participation in a central/local government business enterprises, international organization and other non state-owned entities;

(b) Other government permanent investments in order to generate revenue or increase public services.

16. Non-permanent investments made by the government, among others can be in the form of:

(a) The purchase of bonds or long term commercial debt papers that are meant to be owned by the government until the maturity date;

(b) Capital investment in a development project that can be transferred to a third party;

(c) Funds appropriated by the government in the framework of public services such as revolving fund aid to a community group;

(d) Other non-permanent investments, which are not meant to be continuously owned by the government, such as capital participation which is meant for restructuring/restoring of the economy.

17. The capital participation of the government can be in the form of commercial papers (shares) of a limited liability company and non commercial papers, namely the capital ownership not in the form of shares, of a non incorporated company.

18. Other permanent investments are the form of investment that cannot be included in capital participation, long-term bonds that are purchased by the government, and capital investment in development

projects that are transferable to third parties, such as investments in properties that are not included in this Standard.

19. Accounting for government's investments in properties and joint cooperation (KSO) will be prescribed in a separate accounting standard.

THE RECOGNITION OF INVESTMENT

20. A cash disbursement or asset transaction may be recognized as an investment if it fulfills one of these criteria:

(a) The possible economic benefits and social benefits or potential future service on the said investment can be acquired by the government;

(b) The acquisition or fair value of such investment can be reliably measured.

21. The disbursement to acquire short-term investments will be recognized as government cash disbursement and will not be reported as expenditures in the Statement of Budget Realization, whereas the disbursement to obtain long-term investments will be recognized as financing disbursement.

22. In determining whether cash disbursement or asset transaction fits the first criteria of the above investment recognition, the entity needs to test the level of certainty of the flow of economic and social benefit or potential future services based on evidences supplied at the time of the original recognition. The existence of sufficient certainty, that the future economic benefits or obtainable potential services will occur, needs an assurance that an entity will gain benefits from such assets and will bear the potential risks.

23. The investment recognition criteria as stated in paragraph 20 point b usually can be met due to an exchange or purchase transaction that is supported by an evidence that states/identifies the acquisition cost. In certain matters, an investment may be obtained not based on the acquisition costs or fair value on the date of acquisition. In such a case, the use of an appropriate estimated value may be justified.

MEASUREMENT OF INVESTMENT

24. For several types of investments, there are active markets that can create the market value, in case of such an investment the market value is used as a basis of a fair value. If there is no active market for such investment then nominal value, recorded value, or other fair value may be applied.

25. Short-term investments in the form of commercial papers, such as stocks and short-term bonds, are recorded at the amount of the acquisition costs. The acquisition cost of the investment includes the investment transaction price plus the sales and purchase intermediary commission, bank charges and other costs incurred in the process of such acquisition.

26. In the event of an investment in the form of commercial papers are obtained without acquisition cost, therefore the investments are valued based on the fair value of investments at the time of acquisition, that is its market price. If there is no fair value, then the acquisition cost will be the equivalent of cash exchanged or the fair value of other asset exchanged.

27. Short-term investments in the form of non-shares, such as short-term deposits, are recorded in the amount of the nominal value of such deposits.

28. Long-term investments which are permanent in nature such as government capital participations, are recorded in the amount of the acquisition cost comprising the investment transaction cost plus other costs incurred in the course of acquiring the said investment.

29. Non-permanent investments such as in the form of long-term bonds purchase and investments that are not meant to be owned continuously, are valued according to their acquisition costs. Whereas investments in the form of bridging funds for bank restructuring that will immediately be liquidated, are valued in the amount of the net realizable value.

30. Non-permanent investments in the form of capital investment in government development projects such as Community Core Plantation (PIR) project, will be valued in the amount of

development costs including costs incurred for planning and other costs incurred in the project completion course until the project is delivered to the third party.

31. If a long-term investment is acquired from the exchange of government assets, then the value of investment acquired by the government is the amount of the acquisition costs or fair value of the investment if the acquisition price is not available.

32. Investment acquisition price in foreign exchange must be stated in Rupiah by using the effective exchange rate (Central Bank mid-rate) on the date of transaction.

METHODS OF INVESTMENT VALUATION

33. There are three methods of investment valuation, namely:

(a) Cost method;

Under the cost method, the investment should be recorded in the amount of the acquisition cost. Earnings on the said investment are recognized in the amount of the earnings received and should not affect the amount of investment to the business entity or related legal entity.

(b) Equity method;

Under the equity method, the government records the initial investment in the amount of the acquisition cost added or subtracted by the amount of government share of profit or loss subsequent to date of acquisition. The share of profit, except for dividends in the form of shares that are received by the government, will reduce the government investment value and will not be reported as earnings. The adjustment to the investment value will also be needed to change the government investment ownership portion, such as the changes that arise as a result of foreign exchange and the revaluation of fixed assets.

(c) Net realizable value method;

The net realizable value method is used especially for the ownership that is to be released/sold in the near future.

34. The use of the methods in paragraph 33 is based on the following criteria:

- ***(a)*** ***Ownership of less than 20%, uses the cost method;***
- ***(b)*** ***Ownership from 20% up to 50%, or ownership less than 20% but has significant influence, uses the equity method;***
- ***(c)*** ***Ownership of more than 50%, uses the equity method;***
- ***(d)*** ***Ownership of non-permanent nature, uses net realizable value method.***

35. In certain conditions, the criteria of the magnitude percentage of share ownership is not a determining factor in selecting the investment valuation method, but rather the degree of influence or control over the investee company. The indications of existence of an influence or control over an investee company, are among others:

- (a) The ability to influence the composition of the Board of Commissioners;
- (b) The ability to appoint or replace directors;
- (c) The ability to appoint and replace the board of Directors of the investee company;
- (d) The ability to control the majority of votes in a shareholder meeting/Board of Directors meeting.

RECOGNITION OF THE INVESTMENT EARNINGS

36. Investment earnings from short-term investments, among other in the form of deposit interests, bond coupons, and cash dividends, are recorded as revenues.

37. Investment earnings in the form of cash dividend from government capital participation which is recorded under the cost method, are recorded as revenue from investments. Whereas if the equity method is used, the government share of profit that is received are recorded as a deduction to the value of the government investment and are not recorded as investment earnings. Except for dividends received in the form of shares, such proceeds should be recorded as an

increase to the government investment value and the corresponding account of Equity from Long Term Investments.

DISPOSAL AND RECLASSIFICATION OF INVESTMENT

38. The disposal of government investment may occur as a result of sales, the release of rights due to the government regulations, and others.

39. The proceeds from the sales of short-term investments should be recognized as government cash receipts and should not be reported as revenues in the Statement of Budget Realization, whereas proceeds from the disposal of a long-term investment will be recognized as financing receipt. The disposal of a portion of the government investments should be valued by using the average value.

40. Average value is obtained by dividing the total investment value by the total number of shares that are owned by the government.

41. The change of investment classification can be in the form of reclassification of permanent investments into short-term investments, fixed assets, other assets, and vice versa.

DISCLOSURE

42. Other matters that need to be disclosed in the government financial statements in relation to government investment are, among others:

- ***(a) Accounting policies for determining investment values;***
- ***(b) Types of investments, permanent and non-permanent investments;***
- ***(c) Changes in the market price, either short-term or long-term investments;***
- ***(d) The significant decrease of investment values and their cause thereof;***
- ***(e) Investments valued with fair values and the reason for the implementation thereof;***

(f) Changes in investment accounts.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT IX
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.07

ACCOUNTING FOR FIXED ASSETS

PRESIDEN
REPUBLIK INDONESIA

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PRESIDEN
REPUBLIK INDONESIA

GOVERNMENT ACCOUNTING STANDARDS

STATEMENT NO.07

ACCOUNTING FOR FIXED ASSETS

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the accounting treatment of fixed assets. The main accounting issues in fixed assets are the recognition of assets, the determination of the carrying amount, and the determination and accounting treatment on the revaluation and depreciation of fixed assets.

2. This Standard requires that the fixed assets are able to be recognized as assets if they comply with the definition and the criteria of asset recognition in the Conceptual Framework of the Government Accounting Standards.

Scope

3. This Standard applies to all government units which present general purpose financial statements and prescribe the accounting treatment thereof, including the recognition, valuation, presentation, and the required disclosure, except that other Government Accounting Standards impose different accounting treatment.

4. This Standard does not apply to:

(a) Forest and regenerative natural resources; and

(b) Mining right, the exploration and the extraction of minerals, oil, natural gas, and similar non-regenerative natural resources.

However, this Standard does apply to fixed assets which are used to develop or maintain the activities or assets covered in (a) and (b) above and which are separable from those activities or assets.

DEFINITIONS

5. The following terms are used in this Standard with the meanings specified:

Acquisition cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction up to the point where the asset is ready for use in its condition and location.

Assets are economic resources controlled and/or owned by the government as a result of past events and from which economic and/or social benefits in the future are expected to be obtained, either by the government or by the public, and can be measured in monetary units, including the non-financial resources which are needed to provide services to the public and resources that are maintained for historical and cultural reasons.

Carrying amount of an asset is the book value of an asset that is calculated from its acquisition cost after being deducted with the accumulated depreciation.

Depreciation is the adjustment of value that reflects the decline of capacity and benefit of a certain asset.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Fixed Assets are tangible assets that have a useful life of more than 12 (twelve) months to be used in government activities or to be used for the benefit of the public.

Residual value is the net amount that an entity can expect to obtain from an asset at the end of the term of its useful life after deducting the expected costs of disposal.

Useful life is either:

(a) The period of time over which an asset is expected to be used for government activities and/or public services; or

(b) The number of production or similar units expected to be produced from the assets for government activities and/or public services.

GENERAL

6. Fixed assets usually constitute the main part of the government assets, and therefore are significant in the presentation of the Statement of Financial Position. Included in the government fixed assets are:

(a) Fixed assets owned by a reporting entity but used by other entities, such as other government institutions, universities, and contractors;

(b) Land titles.

7. Not included in the definition of fixed assets are the assets that are controlled for consumption in the government operations, such as materials and supplies.

CLASSIFICATION OF FIXED ASSETS

8. Fixed assets are classified based on the similarity of the nature and functions thereof in the operational activities of the entities. The followings are the classification of fixed assets:

(a) Land;

(b) Equipments and Machineries;

(c) Buildings and Properties;

(d) Roads, Irrigations, and Transmission Networks;

(e) Other Fixed Assets; and

(f) Constructions in progress.

9. Lands classified as fixed assets are those that are acquired and intended to be utilized in the government operational activities and are ready for use.

10. Buildings and properties include all buildings and properties that are acquired and intended to be utilized in government operational activities and are in ready for use.

11. Equipments and machineries include the machineries and motor vehicles, electronic equipments, and all office equipments, and other equipments that are of significant value and the useful life of which is more than 12 (twelve) months and are ready for use.

12. Roads, irrigations, and transmission networks include roads, irrigations, and transmission networks that are constructed by the government and owned and/or controlled by the government and are ready for use.

13. Other fixed assets include fixed assets that cannot be classified into the above group of assets, which are acquired and used for government operational activities and are ready for use.

14. Constructions in progress include fixed assets that are in the development process but at the date of the financial statements are not fully completed.

15. Fixed assets that are not used for government operation do not meet the definition of fixed assets and have to be presented in the other assets accounts according to their carrying amount.

RECOGNITION OF FIXED ASSETS

16. In order to be recognized as fixed assets, a certain asset should be tangible and meet the following criteria:

(a) Has a useful life of more than 12 (twelve) months;

(b) The acquisition cost of the assets can be reliably measured;

(c) Not intended for sale in the normal operations of the entity; and

(d) Is acquired or constructed and intended to be utilized.

17. In determining whether or not a certain item has a useful life of more than 12 (twelve) months, an entity must assess the future economic benefits that can be generated from that item, whether directly or indirectly, for government operational activities. Such benefits may be in the form of revenues flows or the saving of the government expenditures. Future economic benefits that will flow to an entity can be ascertained if such entity will receive such benefits and the associated risks. This certainty is usually available if the benefits and the risks have been accepted by the entity. Otherwise, the acquisition of assets cannot be recognized.

18. A reliable measurement is normally accomplished if there is an exchange of transaction which is evidenced by the purchase of fixed assets and its corresponding cost. In case an asset is self-constructed, reliable measurement on cost can be obtained from the external party transaction with the entity for the acquisition of materials, labor, and other expenses used in the construction process.

19. The main objective of the fixed assets acquisition is to be used by the government in supporting its operational activities and is not intended for sale.

20. The recognition of fixed assets will be very reliable if the fixed assets have already been received or the title has been delivered and/or the control over which is transferred.

21. Assets recognition can be more reliable if there is an evidence that there has been a title transfer and/or legal control, for example, land certificate and the evidence of motor vehicle ownership. If a fixed asset acquisition has not been supported yet with legal evidence, due to an obligatory required administrative process, such as in case of land purchase where the deed of the sale and purchase process and the ownership certificate still have to be settled with the authorized institutions, therefore such fixed assets have to be recognized when there are an evidence that controls over such fixed assets have been transferred, for example, there is already a payment and control of the land certificate from the previous owner.

MEASUREMENT OF FIXED ASSETS

22. Fixed assets are measured using the acquisition cost. If measurement of fixed assets cannot be made using the acquisition cost, then the value of fixed asset should be based on the fair value at the time of acquisition.

23. The acquisition cost of fixed assets constructed under a self-managed method will include the direct costs of labor, materials, and indirect costs including the costs of planning and supervision, equipment, electricity, equipment rent, and all other costs which are incurred to develop such assets.

INITIAL VALUATION OF FIXED ASSETS

24. Tangible asset that qualifies for recognition as an asset and is classified as fixed asset, initially must be measured based on the acquisition cost.

25. If the fixed asset is acquired without any cost, the cost of such asset will be the fair value of the time when it is acquired.

26. A fixed asset may be received by the government as a gift or donation. For example, land may be granted to the local government by a developer without any cost which allows the local government to develop some parking spaces, roads, or pedestrian paths. An asset may also be received without any cost through the implementation of government authorities. For example, due to the authorization and existing regulation, the local government confiscates a plot of land and building which are thereafter used for the location of government operations. For both matters mentioned above, the acquired fixed assets should be measured based on the fair value at the time the assets are acquired.

27. For the purpose of this Standard, the use of the fair value at the time of acquisition, as mentioned in paragraph 25, does not constitute a revaluation process and it is still consistent with the acquisition cost as stated in paragraph 24. Revaluation as mentioned in paragraph 58 and other relevant paragraphs is only applied to the valuation for the subsequent reporting period, and it is not applied at the time of the initial acquisition.

28. For the purpose of preparing the initial statement of financial position of an entity, the acquisition cost of a fixed is the fair value at the time the initial statement of financial position is prepared. For the following periods after the date of the initial statement of financial position, an entity uses either the acquisition cost or the fair value, if there is no acquisition cost, on acquisition of new fixed assets.

Component of Cost

29. Acquisition cost of a fixed asset consists of its purchase price or its construction cost, including the import duty and each directly attributable cost in bringing the asset into a condition where such asset may work for the intended purpose.

30. Examples of directly attributable costs are:

(a) The cost of site preparation;

(b) Initial delivery, storage, and handling costs;

(c) Installation costs;

(d) Professional fees such as for architects and engineers; and

(e) Construction costs.

31. The land will be initially recognized according to its acquisition cost. The acquisition cost includes the purchase price or the cost of land clearance, cost incurred in obtaining the rights, cost of land maturing, measuring, filling, and other costs incurred until the land is ready for use. The costs of land also include the value of the old building on the purchased land that is intended to be demolished.

32. The acquisition cost of equipments and machineries reflects the amount of disbursement made for acquiring the equipments and machineries until they are ready for use. These costs include among others, the purchase price, transportation cost, installation cost, and other direct costs in obtaining and preparing the equipments and machineries until they are ready for use.

33. The acquisition cost of buildings and properties reflects all the costs incurred in acquiring buildings and properties until they are ready for use. These costs include among others the purchase price or construction cost, including the cost for the Building Permit (IMB), the notary fee, and taxes.

34. The acquisition cost of roads, irrigations, and transmission networks reflects all costs incurred in acquiring roads, irrigations, and transmission networks until they are ready for use. These costs include the acquisition cost or construction cost and other cost incurred until the roads, irrigations, and transmission networks are ready for use.

35. The acquisition cost of other fixed assets reflects all the costs incurred in acquiring such assets until they are ready for use.

36. The other general and administrative costs are not a component of the cost of fixed assets, as long as they cannot be directly attributed to the acquisition cost of the assets or they can not bring the assets to their working condition. Similarly, start-up costs and pre-production costs are not part of the cost of an asset unless they are necessary to bring the assets to their working condition.

37. The acquisition cost of an asset that is constructed under a self-managed method is determined by using a similar principle as the purchased asset.

38. Any discount and rebate is deducted from the purchase price.

Construction in Progress

39. If the completion of a fixed asset under construction exceeds one period of a budget year, then the uncompleted fixed assets will be classified and reported as construction in progress until that asset is complete and ready for use.

40. The Government Accounting Standard Number 08 (PSAP No.08) on Construction in Progress prescribes in detail the treatment of construction in progress, including the details of the construction costs for fixed assets, whether they are constructed by self-managed method or constructed by contractors. Unless otherwise prescribed in this Standard (PSAP), then the principles and details set forth in PSAP 08 will be applicable.

41. Construction in Progress that has been completed and ready for use should be immediately reclassified into fixed assets.

Composite Acquisition

42. The acquisition cost of each fixed asset which is compositely acquired is determined by allocating such composite cost based on the comparative fair value of each respective asset.

Exchanges of Assets

43. A fixed asset may be acquired by exchanging the same fixed assets or partly dissimilar fixed assets or other assets. The cost of such assets will be measured by the fair value of the asset received, which is equivalent to the carrying value of the exchanged assets adjusted with the amount of transferred cash or cash equivalent.

44. A fixed asset may be acquired in exchange for a similar asset that has the similar benefit and which has a similar fair value. A fixed asset may also be released in exchange for a similar asset. In both cases, no gain or loss is recognized on the transaction. The cost of the acquired asset is recorded in the carrying amount of the released asset.

45. The fair value of the asset received may indicate some evidence on an impairment of the released asset. Under this circumstance, the value of the released asset should be written down and the value after being written down is the fair value of the received asset. Examples of similar assets exchanges are the exchange of buildings, machineries, specialized

equipments, and aircrafts. If there is other asset involved in this exchange, such as cash, this may indicate that the fixed asset exchanged does not have a similar value.

Donated Assets

46. Fixed assets acquired by a donation must be recorded in the fair value when they are acquired.

47. Donation of fixed assets can be defined as an unconditional transfer of a fixed asset to an entity, for example a non-government business enterprise delivers its own building for use by a government unit without any condition. The delivery of such assets will very reliable, if supported by evidence of the legal transfer of ownership thereof, for example, a deed of grant.

48. If the delivery of the fixed assets is in connection with the liabilities of other entity to the government, then it is not considered as the acquisition of donated assets. As an example, a private company constructs fixed assets for the government under a condition that its liabilities to the government will be considered as settled. The acquisition of such fixed assets should be treated as the acquisition of fixed assets under exchange.

49. If the acquisition of fixed assets complies with the criteria of the acquisition of donated assets, then such acquisition is recognized as government revenue and the same amount will also be recognized as capital expenditure in the Statement of Budget Realization.

SUBSEQUENT EXPENDITURES

50. Expenditure after the initial acquisition of a fixed asset which extends the useful life or which has great possibility in generating future economic benefits in the form of capacity, product quality, or the increase of performance standard, should be added to the carrying value of the asset.

51. The capitalization of cost as mentioned in paragraph 50 must be determined in the accounting policy of that entity with the criteria as set forth in paragraph 50 and/or a certain capitalization threshold which should be applied in determining whether or not the certain expenditure has to be capitalized.

52. Since government organizations vary in terms of number and utilization of fixed assets, therefore a certain capitalization threshold cannot be uniformed for all existing entities. Each entity has to establish such threshold with due observance to its financial and operational conditions. When established, the capitalization thresholds should be applied consistently and be disclosed in the Notes to the Financial Statements.

SUBSEQUENT MEASUREMENT ON INITIAL RECOGNITION

53. Fixed assets should be presented at its acquisition cost deducted with any accumulated depreciation. If some condition occurs where a revaluation is allowed, then the fixed assets will be presented with an adjustment to the fixed assets account and the corresponding equity account.

Depreciation

54. The value adjustment of fixed assets should be carried out in a systematic basis over its useful life. The applied depreciation method should represent the assets economic benefits or the service potential flowing to the government. The depreciation charge for each period should be credited to the carrying values of the fixed assets and debited to the Equity from Fixed Assets.

55. The depreciable useful life of fixed assets must be reviewed periodically and if there is a significant difference from previous estimation, the current and future depreciations have to be adjusted.

56. The methods of depreciation that can be used are, among others:

(a) Straight-line method; or

(b) Double declining balance method; or

(c) Unit of production method.

57. Except for land and construction in progress, all fixed assets can be depreciated according to the nature and characteristics of such assets.

Revaluation of Fixed Assets

58. Generally, revaluation of fixed assets is prohibited since Government Accounting Standards adopt asset valuation based on the acquisition cost or exchange price. Deviation to this requirement may be conducted based on government provisions that are applicable nation-wide.

59. In this case, the financial statements must explain the deviation to the concept of acquisition cost in the presentation of fixed assets as well as the impact of such deviation to the financial representation of an entity. The difference between the revaluation and the carrying amount of the fixed assets should be recorded in the Equity from Fixed Assets.

ACCOUNTING FOR LAND

60. Land owned and/or controlled by the government is not treated in some particular way, and basically follows the provisions as set forth in the accounting for fixed asset standard.

61. Unlike non-government organizations, the government ownership and/or control over land is not restricted by a certain period of time such as Using Rights (Hak Pakai), Cultivating Rights (Hak Pengelolaan), and other rights to land as stipulated under the prevailing statutory regulations. Therefore, after the initial acquisitions of land, the government does not need any costs for maintaining the rights over such land. Land complies the definition of fixed assets and must be treated in accordance with the principles set forth in this Standard (PSAP).

62. The recognition of overseas land as fixed assets will only be possible if an agreement of control and statutory laws and regulations with the respective country where the Representative of the Republic of Indonesia domiciles indicates such permanent control.

63. Land owned or controlled by a government agency abroad, such as land used by the Representative of the Republic of Indonesia overseas, must abide to the provisions of the agreement of control and the laws and the prevailing regulations in the country where the Representative of the Republic of Indonesia domiciles. This is necessary to determine whether the control over such land is permanent or temporary. Control over land will be considered as permanent if the right over such land constitutes a strong right among other rights over land in that country without any time limit.

HERITAGE ASSETS

64. This Standard does not oblige the government to present the heritage assets in the Statement of Financial Position but such assets must be disclosed in the Notes to the Financial Statements.

65. Some fixed assets are determined as heritage assets because of the cultural, environmental, and historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, such as temples, and works of art. Certain characteristics, including the followings, are often displayed by heritage assets:

(a) Cultural, environmental, educational, and historical values are not likely and fully reflected in a financial value based purely on market price;

(b) Prevailing regulations and laws may impose prohibition or severe restriction on disposal by sale;

(c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

(d) It may be difficult to estimate their useful lives that in some cases could be several hundred years.

66. Heritage assets are usually expected to be preserved for an indefinite period of time. Heritage assets are usually proven by the prevailing statutory regulations.

67. The government may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held due to the their inability to generate cash inflow, and there may be some legal or social obstacles if they are used for such purposes.

68. Heritage assets must be presented in the Notes to the Financial Statement in their unitary forms without any value, for example the number of units of collections owned or the number of monument units.

69. The acquisition, construction, improvement, and reconstruction costs must be charged as expenditures for the year such costs occur. Such cost will include all costs incurred for maintaining the heritage assets in its condition and existing location within the current period.

70. Several heritage assets also provide other potential benefits to the government other than the historical value thereof, for example a historical building used for office space. In such case, such asset is treated with the same principles as those of other fixed assets.

71. For other heritage assets, their potential benefit will be limited to the historical characteristics, for example monuments and ruins.

INFRASTUCTURE ASSETS

72. Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

(a) They are part of a system or network;

(b) They are specialized in nature and do not have alternative uses;

(c) They are immovable; and

(d) They may be subject to constraint on disposal.

73. Although the ownership of infrastructure assets is not confined to the government, significant infrastructure assets are sometimes found as government assets. Infrastructure assets meet the definition of fixed assets and should be accounted for in accordance with the principles set forth in this Standard.

74. Examples of infrastructure assets are transmission networks, roads and bridges, drainage systems, and communication transmission networks.

MILITARY ASSETS

75. Military equipments, either specific or general, comply the definition of fixed assets and should be accounted for in accordance with the same principles set forth in this Standard.

RETIREMENT AND DISPOSAL

76. A fixed asset should be eliminated from the Statement of Financial Position when disposed or when its utilization is permanently withdrawn and there is no future economic benefit.

77. Fixed assets which are permanently withdrawn or disposed off should be eliminated from the Statement of Financial Position and be disclosed in the Notes to the Financial Statements.

78. Fixed assets that are ceased from the government operation do not comply with the definition of fixed assets and should be transferred to other assets account along with their carrying amount.

DISCLOSURE

79. The financial statements should disclose, for each class of the fixed assets, the followings:

(a) The measurement bases used for determining the carrying amount;

(b) A reconciliation of the carrying amount at the beginning and end of the period showing:

- ***(1) Additions;***
- ***(2) Disposals;***
- ***(3) Accumulated depreciation and the change of value, if any;***
- ***(4) Other transaction of fixed assets.***

(c) Depreciation information, including:

- ***(1) The depreciation value;***
- ***(2) The depreciation method used;***
- ***(3) The useful lives or the depreciation rates used;***
- ***(4) The gross carrying amount and the accumulated depreciation at the beginning and end of period.***

80. The financial statements should also disclose:

(a) The existence and restrictions on title for fixed assets;

(b) The accounting policy on capitalization in relation to fixed assets;

(c) ***The amount of disbursements on construction in progress account; and***

(d) ***The amount of commitments for acquiring the fixed assets.***

81. If fixed asset is stated at revaluated amounts, the following should be disclosed:

(a) The legal provisions used for revaluating the fixed assets;

(b) The effective date of revaluation;

(c) The identity of the independent appraiser, if any;

(d) The nature of each guidance used to determine the replacement cost;

(e) The carrying amount of each fixed asset.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

ATTACHMENT X
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.08

ACCOUNTING FOR CONSTRUCTION IN PROGRESS

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PRESIDEN
REPUBLIK INDONESIA

GOVERNMENT ACCOUNTING STANDARDS

STATEMENT NO.08

ACCOUNTING FOR CONSTRUCTION IN PROGRESS

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

PREFACE

OBJECTIVE

1. The objective of this Standard is to prescribe the accounting treatment of construction in progress by applying historical cost method. The main issue of the accounting for construction in progress is the acquisition cost of assets, which should be recorded up to the completion of the construction.

2. This Standard provides guidance to:

(a) Identify the work that can be classified as Construction in Progress;

(b) Specify the amount of costs to be capitalized and be presented in the Statement of Financial Position;

(c) Specify the basis of recognition and disclosure of the construction costs.

SCOPE

3. An accounting entity, which acquires fixed asset through construction for government operations and/or public activities in a certain period, either it is completed by self-construction or by third party, should implement this Standard.

4. Overall, the characteristics of the construction activities are long-term; therefore, the starting date and the completion date of the activity is usually due at different accounting period.

DEFINITIONS

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

<u>Claim</u> is the amount requested by the contractor to the employer as reimbursement costs which is not included in the contract amount.

<u>Constructions in Progress</u> are assets, which are in the process of construction.

<u>Construction Contract</u> is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.

<u>Contractor</u> is an entity that enters into a contract to build structures, or providing construction services for other entities in accordance with the specification determined in the construction contract.

<u>Down payment</u> is the amount received by the contractor prior to carrying out the assignment to meet the construction contract.

<u>Employer</u> is an entity that conducts construction contract with a third party to build or render construction services.

<u>Progress billing</u> is the amount invoiced for works as stated in the contract.

<u>Retention</u> is the unpaid amount of progress billing until the fulfillment of the conditions as stated in the contract.

CONSTRUCTION IN PROGRESS

6. Construction in Progress includes land, equipments and machineries, buildings and properties, roads, irrigation and transmission networks, and other fixed assets, the acquisition and/or their development process of which require a certain period of time and is not yet finished. Acquisition through construction contract commonly requires a certain period of time. The acquisition period can be less or more than one accounting period.

7. The acquisition of assets can be conducted by self-constructed or through the third party under construction contract.

CONSTRUCTION CONTRACT

8. A construction contract may relate to the acquisition of a number of assets that are closely relate to or depend upon each other in design, technology, function or purpose, as well as main usage. Example of such contract is a construction of irrigation network.

9. A construction contract may include:

(a) A contract for acquiring services which are directly related to the planning of asset construction, such as architectural design.

(b) A contract for acquiring or constructing the assets;

(c) A contract for acquiring services directly related to the supervision of asset construction, which includes construction management and value engineering;

(d) A contract for demolishing or restoring assets and the restoration of the environment.

COMBINING AND SEGMENTING OF THE CONSTRUCTION CONTRACTS

10. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable component of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

11. When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract, when:

(a) Separate proposals have been submitted for each asset;

(b) Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) The costs of each asset can be identified.

12. Contract may provide a clause for the construction of additional assets at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:

(a) The additional asset differs significantly in design, technology or function from the assets covered by the original contract; or

(b) The price of the additional asset is negotiated without regard to the original contract price**.**

RECOGNITION OF CONSTRUCTION IN PROGRESS

13. A tangible asset is recognized as a Construction in Progress, when:

(a) It is probable that the future economic benefits that are associated with such asset will be obtained;

(b) The acquisition cost of such asset can be measured reliably; and

(c) Such asset is still in the construction process.

14. Construction in Progress is usually an asset which is intended for the long-term use of government operations or for the community benefit and therefore is classified as fixed assets.

15. Construction in Progress should be transferred to the respective fixed assets, if the following criteria are fulfilled:

(a) The construction has been substantially completed; and

(b) It provides benefit/services in accordance with the objective of its acquisition.

16. A construction in progress should be transferred to the respective fixed assets after the construction work is stated as has been completed and is ready for use in accordance with the objective of its acquisition.

MEASUREMENT

17. Construction in Progress should be recorded at its acquisition costs.

Construction Costs

18. The costs of self-construction should include among others:

(a) Costs that are related directly to the construction activity;

(b) Costs that are attributable to construction activity in general and can be allocated to the construction; and

(c) Other costs that are specifically paid in relation to the construction.

19. Costs that relate directly to activities of a construction should among others comprise:

(a) Site labor costs, including site supervision;

(b) Costs of materials used in construction;

(c) Costs of moving plant, equipment and materials to and from the construction site;

(d) Cost of hiring plant and equipment;

(e) Costs of design and technical assistance that are directly related to the construction.

20. Costs that can be attributed to construction activities in general and can be allocated to a certain construction include:

(a) Insurance;

(b) Costs of design and technical assistance that are not directly related to a specific construction;

(c) Other costs that can be identified for the related construction activities such as inspection costs.

Such costs are allocated using methods that are systematic and rational and are consistently applied to all costs having similar characteristics. The recommendable method for cost allocation is the weighted average method on the basis of direct cost proportion.

21. The costs of construction as performed by the contractor according to the construction contract include:

(a) The progress billing paid to the contractor in relation to the level of work completion;

(b) The amount payable to the contractor in relation to the completed but unpaid works at the reporting date;

(c) Payment of the claims to the contractor or third parties in relation to the execution of the construction contract.

22. Contractor comprises the main contractor and subcontractors.

23. Payment on the construction contract in general should be executed in stages (in progress payments) based on the level of completion determined by the construction contract. Each payment should be recorded as an addition to the Construction in Progress.

24. Claims may arise, for example, from delays caused by employer, errors in the specification or design, and dispute on deviation of the contract execution.

25. If the construction is financed from loan, then the borrowing costs arising during the construction period should be capitalized and added to the construction costs, as long as such costs can be reliably identified and determined.

26. The borrowing costs comprise the interest expense and other expense arising in relation to the loan used to finance the construction.

27. The amount of the borrowing costs that are capitalized should not exceed the amount of interest expense paid at the current period.

28. If the loans are used to finance several assets which are obtained in a certain period, the borrowing costs of the related period should be allocated to each construction by using the weighted average method to the total expenditure of construction costs.

29. If the construction building activities are temporarily suspended for the reasons that are not related to force majeur conditions, then the borrowing costs to be paid during the suspended period of construction should be capitalized.

30. The suspension of the construction contract works may occur due to various reasons such as the condition of force majeur or the intervention of the employer or the authorizing parties. If it is caused by the intervention of the employer or the authorizing parties, then the borrowing costs during the suspension period should be capitalized. On the contrary, if the suspension is caused by the force majeur, the borrowing costs should not be capitalized, but, it should be recorded as interest expense of the related period.

31. If a construction contract comprises several works with different completion period, then the works that have already been completed should not be charged with the borrowing cost. Borrowing costs should only be capitalized for the works which are still in the working process.

32. A construction contract may comprise several types of assets, which each can be identified as referred to in paragraph 11. If such works are

completed at different period of time, then the borrowing costs that should be capitalized are only applied to the portion of construction contract or works which have not yet been completed.

DISCLOSURE

33. An entity should disclose information on the Construction in Progress at the end of the accounting period:

(a) Detail of the contract of construction in progress including the level of completion and the expected period of completion;
(b) The construction contract value and its source of financing;
(c) The amount of costs already disbursed;
(d) The advanced payment already given;
(e) Retention.

34. A construction contract generally contains provisions about retention. For example, the amount due but still kept by the employer during the maintenance period. The amount of the retention should be disclosed in the Notes to the Financial Statements.

35. Assets can be financed from certain financial sources. The inclusion of the financial sources is aimed at providing an outlook of the financial sources and its absorption up to a certain date.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT XI

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA

NUMBER 24 YEAR 2005

DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.09

ACCOUNTING FOR LIABILITIES

TABLE OF CONTENTS

Paragraph

GOVERNMENT ACCOUNTING STANDARDS
STATEMENT NO.09
ACCOUNTING FOR LIABILITIES

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

PREFACE

Objective

1. The objective of this Standard is to prescribe accounting treatment for liabilities, which comprises the time of recognition, determination of the carrying amount, amortization, and the borrowing cost that is charged to the liabilities.

Scope

2. This Standard applies to all government units that present general purpose financial statements and prescribe the accounting treatment, including recognition, measurement, presentation, and the required disclosure.

3. This Standard prescribes the following:

(a) Accounting for Government Liabilities, including short-term and long-term liabilities, which are caused by domestic and foreign debt;

(b) Accounting treatment for borrowing transactions in foreign currency;

(c) Accounting treatment for transactions as a result of debt restructuring;

(d) Accounting treatment for expenses as a result of government debts.

Letter (b), (c), and (d) above apply as long as there is no specific Standard that prescribes such issues.

4. This Standard does not prescribe:

(a) Accounting for estimated liabilities and contingent liabilities;

(b) Accounting for derivative instruments and hedging activities;

(c) Transactions in foreign currency as a result of transactions other than borrowing transactions denominated in foreign currencies such as referred in paragraph 3(b).

Letter (a) and (b) are prescribed in a separate standard.

DEFINITIONS

5. The following terms are used in this Standard with the meanings specified:

Amortization is a systematic allocation of premiums or discounts during the duration of the government debt.

Borrowing Cost is the interest and other costs which have to be accounted for by the government in relation to the process of obtaining debts.

Carrying Amount of Liability is the book value of the liability calculated from the nominal value after being deducted or added by unamortized discounts or premiums.

Contingent Liabilities are:

(a) potential liabilities that arise from past events and their existence is made certain by either or not occurrence of an event or more in the future, which are not entirely under the control of an entity ;or

(b) present liabilities that arise as a result of past event, but are not recognized since:

(1) there is no probability that the entity will disburse resources that provide economic benefits to settle its liabilities; or

(2) the amount of the liabilities cannot be reliably measured.

Creditors are parties providing loans to debtors.

Debtors are parties receiving debts from the creditors.

Debt Restructuring is the agreement between the creditor(s) and the debtor(s) to modify the covenant of the loan agreement with or without the deduction of the amount of the debt, in the forms of:

(a) Refinancing, which replaces the existing debt, including the outstanding debt, with a new debt; or

(b) Rescheduling or modifying the loan covenant, by changing the requirements and conditions of the existing agreement contract. Debt Rescheduling may be in the forms of:

(1) The change in payment schedule;

(2) The extension of the grace period;

(3) The rescheduling of the payment plan of the principaland interest that are matured and/or in arrears.

Discounts are the amount of negative differences between the present value of liabilities and the maturity value of the liabilities due to the nominal interest rate that is lower than the effective interest rate.

Estimated Liabilities are liabilities whose period and the amount of which are still uncertain.

Exchange Rate is the exchange ratio of two currencies.

Treasury Bill is a government note with a term of equal or less than 12 months, the interest of which is paid in discount.

Government Bond (SUN) is government debt securities either in Rupiah or foreign currency, whereby the payment of principal and interest are guaranteed by the Republic of Indonesia, according to their duration.

Government Debt Securities are securities in the form of tradable government debt acceptance and have maturity values or settlement values at the issuance date, such as Government Bond (SUN).

Liabilities are present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources.

Nominal Value is the value of government debts at the initial transaction, which is the same as that of the government note. The subsequent economic flow, such as payment transactions, value change due to changes in the exchange rate, and other change other than the market value, are accounted for by adjusting the recorded amount of the liability.

Liability in Arrears is the amount of overdue liability because of the inability of the entity to pay the principal and/or interest on the scheduled time.

Premium is the positive difference between the present value of liability and the maturity value of liability, due to the higher nominal interest rate than the effective interest rate.

Qualifying Assets, also called Certain Assets, are assets which require a significant long period to be ready for use or sold in accordance with their purposes.

Reporting Entity is a government unit consisting of one or more accounting entities which according to the statutory regulations is obliged to prepare and submit accountability reports in the form of financial statements.

Straight-Line Method is the allocation method of premium or discount with the same amount during the period of government debt securities.

Third Party Withheld (PFK) is a government debt to other parties as a result of the government position as the withholder of taxes or other collections, such as Income Tax (PPh), Value Added Tax (PPN), and Health Insurance (Askes), Pension Fund (Taspen), and Housing Fund (Taperum).

Treasury Bonds are government notes with a term of more than 12 (twelve) months with coupon and/or with discounted interest payment.

GENERAL

6. The main characteristic of liabilities is that the government has an obligation up to the present time that for its settlement will result in a sacrifice of economic resources in the future.

7. In general, liabilities arise due to the consequences of executing duty or responsibility in the past. In the context of the government, the liabilities arise due to the use of financing sources from the public, financial institutions, other government entities, or the international institutions. The government obligation also arise from the commitment with the employees that work for the government, obligation to the public in general, such as allowance, compensation, indemnification, overpaid tax from tax payers, allocation/reallocation of revenues to other entities, or liabilities to other services providers.

8. Every liability can be legally enforced as a consequence of a binding contract or prevailing statutory regulations.

CLASSIFICATION OF LIABILITIES

9. Every reporting entity discloses every liability account that includes amounts, which are expected to be settled in less than 12 (twelve) months and more than 12 (twelve) months after the reporting date.

10. Information regarding due dates of financial liabilities is useful to assess the liquidity and solvency of a reporting entity. Information regarding the settlement date of liabilities, such as payables to third parties and interest payables, is also useful to classify whether a liability is a short-term or a long-term liability.

11. A liability is classified as a short-term liability if it is expected to be settled within 12 (twelve) months after the reporting date. All other liabilities are classified as long-term liabilities.

12. Short-term liabilities can be categorized in the similar manner as current assets. Some short-term liabilities, such as government transfer payables or payables to employees are elements of short-term liabilities that will absorb current assets in the following reporting year.

13. Other short-term liabilities are liabilities that are due within 12 (twelve) months after the reporting date. For examples, debt interest, short-term liabilities from third parties, Third Parties Withheld (PFK) liability, and current portion of long-term liabilities.

14. A reporting entity should classify its liabilities as long-term liabilities, even though those liabilities are due and will be settled within 12 (twelve) months after the reporting date, if:

(a) the original period is for a period of more than 12 (twelve) months; and

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

(c) the intention is supported by a refinancing agreement, or a rescheduling of payment, which will be settled before the financial statements are approved.

15. The amount of each liability that are not presented as short-term liabilities, as stated in the paragraph above, together with the information supporting this presentation, should be disclosed in the Notes to the Financial Statements.

16. Some liabilities that are due at the following year may be expected to be refinanced or rolled over based on the policy of the reporting entity and are expected not to immediately absorb the fund of the entity. Such liabilities are considered as a part of long-term financing and are classified as long-term liabilities. However, in a circumstance when the refinancing policy is not within the entity (for example, there is no approval on refinancing), this refinancing cannot be automatically considered and these liability are classified as a short-term account, unless the settlement of such refinancing agreement before the financial statements proves that the substance of the liabilities on the reporting date is long-term.

17. Some loan agreements include covenants, which cause long-term liabilities to become short-term liabilities (payable on demand) if certain requirements regarding the financial position of the borrower are violated. In such situation, liabilities can be classified as long-term liabilities, only if:

(a) the creditor has agreed not to ask for settlement as a consequence of the violation, and

(b) there is a guarantee that there will be no further violation within 12 (twelve) months after the reporting date.

RECOGNITION OF LIABILITIES

18. In the general purpose financial reporting, liabilities are recognized when there is a high degree of possibility that the expending of economic resources will be carried out or has been carried out to settle the current obligation, and changes on such obligation have a settlement value that can be reliably measured.

19. The existence of past events (in this case including transactions) is highly important in recognition of liabilities. An event is an occurrence of financial consequence over an entity. An event may be an internal occurrence within an entity, such as the transformation from raw material into a product, or it may be an external occurrence that involves interaction between an entity and its environment, such as a transaction with other entities, natural disasters, thefts, destructions, accidental damages.

20. A transaction involves a transfer of an object with value. Transactions may be transactions with or without exchange. Distinction between transactions with exchange and transaction without exchange is highly significant to determine the recognition of liability.

21. Liabilities are recognized when the debt funds are received and/or when the liabilities occur.

22. Liabilities may occur from:

(a) exchange transactions;

(b) non-exchange transactions, in accordance with the prevailing statutory regulation -- such as the accruing liabilities -- have not yet been fully paid until the date of reporting;

(c) government-related events;

(d) government-acknowledged events.

23. An exchange transaction occurs when each party in a transaction sacrifices and receives a value as an exchange. There are two reciprocal flows of resources or promises to provide resources. In an exchange transaction, a liability is recognized when a party receives goods or services as an exchange of a promise to give cash or other resources in the future.

24. One example of exchange transaction is when government employees provide services as an exchange/replacement of the compensations they receive, such as salary and other employee benefits. An exchange transaction occurs because two parties (employer and employee) receive and sacrifice values. Compensation liabilities comprise unpaid salaries, service provided, and other employee benefit expenses which are related to the services in the current period.

25. A non-exchange transaction occurs when a party in such transaction receives value without directly providing or promising value as the exchange. There is only one direction of flow of resources or promises. For a non-exchange transaction, a liability must be recognized on the payable amount that has not been paid on the reporting date.

26. Several types of grants and general/special aid programs for other reporting entities are considered as non-exchange transactions. When the central government creates program of ownership transfer or provides grants or allocates its funds to local governments, the payment requirements are determined by the prevailing statutory regulations and are not determined by exchange transactions.

27. Government related events are events that are not based on transactions but based on interactions between the government and its environment. Such events may not be under the control of the government. Generally, a liability is recognized as a result of the government related events, with the similar basis as those that arise from the exchange transactions.

28. When the government accidentally causes damages to private properties then such case creates a liability at the time the damage happens as long as the prevailing provisions and the existing policies make it possible for the government to pay for the damage and as long as the amount of payment can be estimated reliably. An example of this case is accidental damages of private properties caused by activities conducted by the government.

29. Events recognized by the government are events that are not based on transactions but such events have financial consequences to the government since the government decides to respond those events. The government has vast responsibility to provide for public welfare. Therefore, it is frequently assumed that the government is responsible for an event that is not prescribed in the formal existing regulations. Consequently, at last the government is responsible for the expense of various events caused by non-governmental entities and natural disasters. However, such expenses have not yet met the definition of liabilities until the government formally recognizes them as the government financial responsibility in relation to the expenses arise from those events and the occurrence of the exchange transaction or the non-exchange transaction.

30. In other words, the government should recognize liabilities and expenses for the conditions in paragraph 29 when both fulfill the following two criteria: (1) The House of Representative has approved or authorized the resources to be utilized, (2) exchange transactions arise (for example, when the contractor conducts renovation) or the amount of non-exchange transaction has not been paid at the reporting date (for example, direct payment to victims of disaster).

31. The following examples illustrate the recognition of liabilities of an event recognized by the government. There are damages caused by natural disaster in the cities in Indonesia, and the House of Representative (DPR) authorizes expenses to cover such disaster. Such event is a financial consequence of the government as a result of deciding to provide aid for the disaster in those cities. Transactions related to that matter, including government donation to each individual and contractual works paid by the government, are recognized as exchange transactions or non-exchange transactions. In an exchange transaction, the owed amount for goods and services are recognized by the government at the time the goods are delivered or the contract is finalized. In a non-exchange transaction, a liability must be recognized in the owed amount that has not been paid on the reporting date. The liabilities include the amount of bills to the government to pay the benefits and goods or services that have been provided in accordance with the existing program on the reporting date of the government.

MEASUREMENT OF LIABILITIES

32. Liabilities are recorded at their nominal value. Liabilities in foreign currency are translated and stated in Rupiah. The translation of foreign currency should apply the central bank's mid-rate at the date of the Statement of Financial Position.

33. The nominal value of the liabilities reflects the value of the liability of the government at the initial transaction, such as the stated value on the government bonds (SUN). The economic flow thereafter, such as payment transaction, change of value due to the change of foreign exchange

currency, and other changes other than the change of market value, are accounted for by adjusting the carrying amount of the liability.

34. The use of nominal value in measuring the liabilities follows the characteristics of each account. The following paragraphs explain the application of nominal value for each liability account in the financial statements.

Accounts Payable

35. When the government receives rights of goods, including the goods in transit the title of which has been transferred to the government, the government must recognize liabilities for the unpaid amount of those goods.

36. If a contractor builds facilities or equipments as specified in the agreement contract with the government, the recorded amount must be based on the physical realization of the construction progress as stated in the project progress report.

37. ***The amount of liabilities that occurs due to the transaction from inter government unit must be separated from the liabilities from the non-government unit*****.**

Accrued Interest Payable

38. Interest payable on government debts must be recorded in the amount of the interest accrued and have not been paid. The interest can be originated from local or foreign government debts. Unpaid accrued interest on government debts must be recognized at every end of reporting period as a part of the related liabilities.

39. Measurement and presentation of accrued interest above also apply to government securities issued by the central government in the form of government bond (SUN), and those issued by the local government (province, district, and city) with the similar form and substance to the Government Bond (SUN).

Due to Third Party Withheld (PFK)

40. At the end of the reporting period, collections of Due to The Third Party Withheld (PFK) that has not been transferred to other parties must be recorded in the financial statements in the amount due.

41. The amount of collection PFK collected by the government must be handed over to the corresponding third parties in the same amount of the collection. At the end of the reporting period, there is usually still collection that is not yet paid to the third party. The amount of collection must be recorded in the financial statements in the same amount of the collection due.

Current Portion of Long Term Liabilities

42. The amount stated in the financial statements for the current portion of long term liabilities is the amount that is due within 12 (twelve) months after the reporting date.

43. The portion of Long-Term Liabilities that are due and must be paid within 12 (twelve) months after the reporting date is categorized as current portion of Long-Term Liabilities.

Other Current Liabilities

44. Other Current Liabilities are current liabilities that are not covered in the existing category. Included in Other Current Liabilities are expenses that must still be paid at the time the financial statements are prepared. The measurement of each item is adjusted to the characteristics of each account, for example, salary payable to employees is valued based on the amount of salary that still has to be paid for the services rendered by the employees. Another example is the disbursement of down-payment by the government to other parties for procuring goods and services.

Non-Traded Debts and Traded Debts

45. The measurement of government debts is adjusted to the characteristics of the debt, which may be in the form of:

(a) Non-traded Debts

(b) Traded Debts

Non-traded Debts

46. The nominal value of the non-traded debts is the liability of the entity to the creditor in the amount of the principal and the interest as stated in the agreement contract and has not been paid at the reporting date.

47. Example of government debts that is not traded are bilateral loans, multilateral loans, and loans from international financial institutions such as the IMF, the World Bank, the ADB, and so forth. The legal form of this loan is usually a loan agreement.

48. For government debts with fixed interest rates, the measurement may use payment schedule with fixed interest rates. For government debts with variable interest rates, for example interest rate connected with a financial instrument or with another index, the measurement of government debt uses the similar principle with the fixed interest rate, unless the interest rate is fairly estimated based on prior data and observation on the existing financial instrument.

Traded Debts

49. Accounting for government debts in the form of traded debts is supposedly able to identify the amount of the remaining debts of the

government during a certain period of time, including the interest for every accounting period. This requires initial valuation of securities at selling price or the result of sales, and the valuation when the amounts are due for payment to the securities holders, and during the 'in between' period to fairly illustrate the government debts.

50. Traded debts are usually in the form of government debt securities which stipulate the provision on the value of the debts at maturity time.

51. The government debt securities must be valued at par (original face value) by considering the unamortized discount and premium. The government debt securities that are sold at par (face value) without discount or premium must be valued at par (face value). The book value of government debt securities that are sold at discounted price will increase from the period of sale until the maturity; whereas the book value of the government debt securities sold at premium will decrease.

52. Government debt securities, such as Government Bond (SUN) or Treasury Bill, must be valued based on the value that must be paid at maturity (face value), if they are sold at par. If the government debt securities are sold above or below par, then the subsequent valuation should consider the amortization of the discount or the premium.

53. Amortization of discount or premium may use the straight line method.

Change of Foreign Currency

54. Government debts in foreign currency are recorded by using the mid-rate of the central bank when the transaction occurs.

55. The exchange rate applicable at the transaction date is frequently called spot-rate. For practical reasons, an exchange rate approaching the exchange rate on the transaction date is frequently applied. For instance, the average of mid-rate of the central bank during one week or one month is applied to all transactions in that period. However, if the exchange rate fluctuates significantly, the application of a mid-rate within a period of time is not reliable.

56. On each reporting date, the account of monetary liabilities in foreign currency is reported in Rupiah using the mid-rate of the central bank at the reporting date.

57. The difference of foreign currency translation of the account of monetary liabilities at the transaction date and at the reporting date is recorded as an increase or decrease of equity for the current period.

58. The consequence of recording and reporting liabilities in foreign currency will affect liabilities and equity accounts in the Statement of Financial Position of the reporting entity.

59. If a transaction in foreign currency occurs and is settled within the same period, then the entire difference of the exchange rate is recognized in that period. However, if the occurance and the settlement of transactions take place in different accounting periods, then the exchange rate difference must be recognized for each accounting period by considering the change of exchange rate for each period.

SETTLEMENT OF LIABILITIES PRIOR TO THEIR DUE DATE

60. For government debt securities that are settled before the maturity date due to the availability of features that enables the issuer to call back those securities or due to the fulfillment of the settlement provision at the request of the creditors, then the difference between the call price and the recorded net carrying amount must be disclosed in the Notes to the Financial Statements as a part of the related liability account.

61. If the call price is the same with the carrying amount, then the settlement of liabilities before the maturity date is considered as a normal settlement of debt, which is by adjusting the value of the related liability and the equity.

62. If the call price is different from the carrying amount, then, besides the adjustments of the amount of liabilities and the related equity, the amount of the difference must also be disclosed in the Notes to the Financial Statements.

ARREARS

63. The amount of arrears on government debts must be presented in the form of an aging schedule for each creditor in the Notes to the Financial Statements as a part of disclosure of liabilities.

64. Arrears are defined as the amount of the liabilities that are overdue but the government is not able to pay the amount of the principal and/or the interest as of the schedule. Some types of government debts may have maturity date according to the schedule at a certain date or a series of dates when the debtors are obliged to make payments to the creditors.

65. Accounting practices usually do not separate the amount of arrears from the amount of the related debt in the face of the financial statements. However, the information of the government arrears has become one of the information that attracts the readers of the financial statements as a subject of policy and solvency analysis of an entity.

66. For that reason, the information of the arrears must be disclosed in the form of an aging schedule in the Notes to the Financial Statements.

DEBT RESTRUCTURING

67. In a debt restructuring through modification of debt covenant, the debtors must record the impact of the restructuring prospectively from the time the restructuring is occured and are not allowed to change the recorded values of debts at the time of restructuring, unless the recorded amount exceeds the amount of future cash payment of the cash, which is determined by the new covenant. This restructuring information must be disclosed in the Notes to the Financial Statements as part of the disclosure of the related liabilities account.

68. The amount of interest must be calculated by using the constant effective interest rate multiplied by the carrying amount of debts at the beginning of every period between the time of restructuring and the due date. The new effective interest rate is equal to the amount of the discount rate that can equalize the cash value of future cash payments, as determined in the new covenant (excluding contingent liabilities), with the carrying amount. Based on the new effective interest rate, a new payment schedule could be established starting from the time of restructuring until the time of due date.

69. Information on the old and new effective interest rates should be presented in the Notes to the Financial Statements.

70. If the amount of future cash payments as determined in the new debt covenant, including payment of interest and principal, is below the carrying amount, then the debtors must decrease the carrying debt amount to the same amount as the amount of future payments as determined in the new covenant. This must be disclosed in the Notes to the Financial Statements as part of the disclosure of the related liabilities account.

71. An entity must not change the carrying debt amount as an impact of debt restructuring, which involves future cash payments that cannot be determined as long as the maximum future cash payment does not exceed the carrying debt amount.

72. The amount of interest or principal of debts according to the new covenant may be contingent, depending upon certain events or conditions. For example, debtors may be required to pay a certain amount if the financial condition is improving to a certain level during a certain period. To determine the amount then it must comply with the principles on contingency accounting which is not prescribed in this Standard. The same principles apply to future cash payments that must be frequently estimated.

Debt Write-Off

73. Debt write-off is a voluntary cancellation of debt from the creditors to the debtors, either a part or the whole amount of the debt, in the form of a formal agreement between both parties.

74. The debt write-off may be settled by the debtors to the creditors through transfers of cash or non-cash assets at a value below the carrying debt amount.

75. If the settlement of one particular debt which is below the carrying amount is finalized by cash assets, then the stipulation in paragraph 70 applies.

76. If the settlement of one particular debt which is below the carrying amount is finalized by non-cash assets, the entity as the debtor must at first revaluate the non-cash assets to get the fair value, and then apply the paragraph 70; the related liabilities and non-cash assets accounts should also be disclosed in the Notes to the Financial Statements.

77. Information in the Notes to the Financial Statements must disclose the amount of difference that arises from the debt restructuring, which is the positive difference between:

(a) The carrying amount of debt that is settled (the nominal amount deducted or added by unamortized payable interests and premiums, discounts, financial expenses or issuing expenses), and

(b) The fair value of assets that are handed over to the creditors.

78. Revaluation of assets in paragraph 76 will generate a difference between the fair value and the value of assets that are handed over to the creditors as debt settlement. The said difference must be disclosed in the Notes to the Financial Statements.

EXPENSES RELATED TO GOVERNMENT DEBTS

79. Expenses related to government debts are interest expenses and other expenses that arise in relation with the borrowing of funds. The expenses consist of:

(a) Interest on the borrowing funds, either short term or long term debts;

(b) Amortization of discount or premium in relation to the debts;

(c) Amortization of expenses in relation to the debt ***acquisition***, such as consultant fee, legal advisor fee, commitment fee, and so on.

(d) The difference of the exchange rate of debts in foreign currency, as long as such difference is treated as adjustment on interest expenses.

80. Borrowing expenses that are directly attributable to the acquisition or production of a certain asset (qualifying asset) must be capitalized as part of the acquisition cost of that asset.

81. If the interest on debt is directly attributable to the asset, then the interest expenses must be capitalized to the qualifying asset. If the interest expenses are not directly attributable to the asset, then the capitalization of the interest expenses is determined based on paragraph 82.

82. In certain circumstances, it is difficult to identify the existence of direct relationship between a certain debt with the acquisition of the assets and to determine whether a certain debt is not necessary if the acquisition of the asset does not occur. For example, more than one government activity/project are financed centrally. Some difficulties may also happen when an entity uses several types of financing resources with different interest rates. In this situation, it is so difficult to determine the amount of interest expenses to be directly attributed, that a professional judgment is necessary.

83. If the borrowed funds are not specifically used for the acquisition of assets, then the interest expenses that should be capitalized to certain assets must be calculated based on the weighted average of the total accumulated costs of all related assets during the reporting period.

PRESENTATION AND DISCLOSURE

84. Government debts must be disclosed in detail in the form of schedule of debts to provide better information to the users.

85. To improve the analytical purpose, the information that must be presented in the Notes to the Financial Statements are:

(a) The amount of short-term and long-term liabilities balances which are classified based on the creditors;

(b) The balance of liabilities of government debts based on the types of government debt securities and their due dates;

(c) Interest payable of the debts in the current period and the applicable interest rate;

(d) The consequences of settling the debts before the maturity date;

(e) A debt restructuring agreement, includes:

(1) Deduction of debt;

(2) Modification of debt covenant;

(3) Reduction of borrowing interest rate;

(4) Extension of maturity date;

(5) Reduction of the amount due at maturity; and

(6) Reduction of the amount of interest payable until the reporting period;

(f) The amount of debt in arrears that is presented in the aging schedule based on the creditor;

(g) Debt expenses:

(1) Treatment of debt expenses;

(2) The amount of debt expenses that is capitalized in the current period; and

(3) Level of capitalization.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

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THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT XII
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.10

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

PRESIDEN
REPUBLIK INDONESIA

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PRESIDEN
REPUBLIK INDONESIA

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.10

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

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

PREFACE

Objective

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

Scope

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

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

DEFINITIONS

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

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

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

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

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

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

CORRECTION OF ERRORS

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

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

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

(a) Unrepeated errors;

(b) Repeated and systemic errors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHANGES IN ACCOUNTING POLICY

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

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

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

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

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

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

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

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

EXTRAORDINARY EVENTS

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

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

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

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

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

35. Extraordinary events have to meet the following conditions:

(a) Not an ordinary activity of the entity;

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

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

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

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

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

The similar copy to the original

THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.

PRESIDEN
REPUBLIK INDONESIA

ATTACHMENT XIII
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 24 YEAR 2005
DATE 13 JUNE 2005

GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.11

CONSOLIDATED FINANCIAL STATEMENTS

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GOVERNMENT ACCOUNTING STANDARDS STATEMENT NO.11

CONSOLIDATED FINANCIAL STATEMENTS

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

PREFACE

Objective

1. The objective of this Standard is to prescribe the preparation of the consolidated financial statements of the government units for presenting general purpose financial statements in order to improve their quality and completeness. In this Standard, the general purpose financial statements are financial with the objective to fulfill the needs of the majority of the financial statements users, including Central/Local House of Representative (DPR/DPRD) as are determined in the prevailing statutory regulations.

Scope

2. The general purpose financial statements of government units which are determined as reporting entities are presented in Consolidated Financial Statements in order to reflect one unity of entity according to this Standard.

3. Consolidated Financial Statements of the central government as a reporting entity comprise financial statements of all accounting entities, including those of Public Service Body (BLU).

4. This Standard does not prescribe:

(a) Consolidated financial statements of Central/Local Government Business Enterprises (BUMN/BUMD).

(b) Accounting for investments in associated companies;

(c) Accounting for investments in joint ventures; and

(d) Combined Statistical Reports of the central and local governments.

DEFINITIONS

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

<u>Accounting Entity</u> is a government unit endowed to certain budget or goods and therefore is to prepare financial statements to be compiled into those of the reporting entity.

<u>Consolidation</u> refers to a process of compiling accounts carried out by a reporting entity with other reporting entities, by eliminating reciprocal accounts in order to be presented as one consolidated reporting entity.

<u>Consolidated Financial Statements</u> are financial statements that are combinations of all financial statements of reporting entities to represent one single entity.

<u>Public Service Body (BLU)</u> are government agencies, which are established to provide services to the public by supplying goods and/or services, which are sold without profit motive and, in conducting their activities are based on the principles of efficiency and productivity.

<u>Reporting Entity</u> is a government unit consisting of one or more accounting entities which according to the statutory regulations is obliged to prepare and submit accountability reports in the form of financial statements.

PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

6. Consolidated Financial Statements consist of the Statement of Budget Realization, the Statement of Financial Position, and Notes to the Financial Statements.

7. Consolidated Financial Statements are presented for the same reporting period to that of the reporting entity and include comparative amounts from the prior period.

8. The central government submits the consolidated financial statements from all line ministries/institutions to the House of Representative (DPR).

9. In this Standard, the process of consolidation is followed by eliminating reciprocal accounts. Nevertheless, if such elimination is still not viable, then such case should be disclosed in the Notes to the Financial Statements.

10. An example of reciprocal accounts among other is cash advances (UYHD), which has not yet been accounted for by the Disbursing Treasurer up to the end of accounting period.

REPORTING ENTITY

11. A reporting entity is determined in the prevailing statutory regulations, generally characterize as follows:

(a) Such entity is financed by the Revenue and Expenditure Budget for Central/Local Government (APBN/APBD) or is furnished with separated funds from the budget,

(b) Such entity is established by the prevailing statutory regulations,

(c) The management of such entity is assigned government officials or appointed state officials or elected by the people, and

(d) Such entity should prepare accountability report either directly or indirectly to the House of Representative which approve the budget.

ACCOUNTING ENTITY

12. As an accounting entity, a government unit, which is endowed to certain budget or goods, conducts accounting process and submits financial statements to the reporting entity on the managed budget/goods.

13. Each government unit that receives budget or manages goods is an accounting entity which is obliged to conduct accounting process, and to prepare financial statements periodically according to government accounting standards. Such financial statements are submitted internally and hierarchically to the higher unit for the purpose of combining financial statements by the reporting entity.

14. In principle, Central/Local Government Business Enterprises (BUMN/BUMD) are accounting entities, however, their accounting treatment and presentation of the financial statements do not follow government accounting standards.

15. A certain accounting entity, which has significant influence in the achievement of government programs, can be stipulated as a reporting entity with a statutory regulation.

PUBLIC SERVICES BODY (BLU)

16. A Public Services Body (BLU) conducts public services, collects, receives, and spends public funds which is received in relation to the serviced it provides, but it does not constitute a legal entity such as

government business enterprises. Examples of BLUs among others are hospitals, state universities, and authoritative agency (otorita).

PROCEDURES OF CONSOLIDATION

17. Consolidation as outlined in this Standard is conducted by combining and adding the accounts of a certain reporting entity with other reporting entities with or without eliminating reciprocal accounts.

18. The reporting entity prepares financial statements by combining the financial statements of all accounting entities which are subsidiaries of the reporting entity.

19. Consolidation can be properly implemented by either eliminating or not eliminating reciprocal accounts.

20. When consolidation is conducted without eliminating reciprocal accounts, then the reciprocal accounts and estimated amounts of such accounts are disclosed in the Notes to the Financial Statements.

21. The Financial Statements of the Public Services Body (BLU) are combined with those of the line ministries/institutions of central/local governments, which supervise the BLUs with the following provisions:

(a) The Statement of Budget Realization of the BLU is compiled in gross to the Statement of Budget Realizations of the line ministries/ institutions of central/local governments, which supervise the BLUs.

(b) The Statement of Financial Position of BLU is compiled with the Statement of Financial Positions of the line ministries/institutions of central/local governments, which supervise the BLUs.

EFFECTIVE DATE

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

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

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