TECHNICAL BULLETIN OF GOVERNMENT ACCOUNTING STANDARDS

TECHNICAL BULLETIN 06
ACCOUNTS RECEIVABLE

THE GOVERNMENT ACCOUNTING STANDARDS COMMITTEE (KSAP)

TECHNICAL BULLETIN OF GOVERNMENT ACCOUNTING STANDARDS

TECHNICAL BULLETIN 06
ACCOUNTS RECEIVABLE

THE GOVERNMENT ACCOUNTING STANDARDS COMMITTEE (KSAP)

Technical Bulletin on Accounts Receivable

TABLE OF CONTENTS

CHAPTER I BACKGROUND

CHAPTER II EVENTS GIVING RISE TO ACCOUNTS RECEIVABLES

A. Collection of Central/Local Government Revenues
B. Contracts
C. Intergovernmental Transfers
D. Losses Inflicted on Central/Local Government

CHAPTER III ACCOUNTS RECEIVABLE ARISING FROM COLLECTION OF CENTRAL/LOCAL GOVERNMENT REVENUES

A. Types
B. Recognition
C. Measurement
D. Presentation and Disclosure

CHAPTER IV ACCOUNTS RECEIVABLE ARISING FROM CONTRACTS

A. Types
B. Recognition
C. Measurement
D. Presentation and Disclosure

CHAPTER V ACCOUNTS RECEIVABLE ARISING FROM INTERGOVERNMENTAL TRANSFERS

A. Types
B. Recognition
C. Measurement
D. Presentation and Disclosure

CHAPTER VI ACCOUNTS RECEIVABLE ARISING LOSSES INFLICTED ON GOVERNMENT

A. Types
B. Recognition
C. Measurement
D. Presentation and Disclosure

CHAPTER VII WRITE-OUTS OF RECEIVABLES

A. Allowance for Bad Debts
B. Write-Outs
C. Payment of Written Off Receivables

References

CHAPTER I
BACKGROUND

Government Regulation No. 24 of 2004 on the Government Accounting Standards, which adopt a cash-towards-accrual basis, provides that revenue and expenditure are to be recognized at the time of receipt or payment out of the Central Government Treasury, while assets and Liabilities are to be recognized at the time when rights and obligations that affect the government’s net asset balance arise. Experience in the implementation of the Government Accounting Standards to date, particularly during the closing of the books at the end of the year, shows that there are still a variety of interpretations regarding the identification, measurement, presentation, and disclosure of accounts in the financial statements. This is because that Government Accounting Standards only provide general information on these issues so that further clarification is required.

One of the significant accounts on the balance sheet is Accounts Receivable, which accommodates the recording of all government claims during a particular cutoff period as additional government assets in the form of Accounts Receivable.

Government Accounting Standard No. 01 (Presentation of Financial Statements) defines assets as 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.” Accounts Receivable are referred to in paragraph 43 of Government Accounting Standards No. 01, which provides that the Balance Sheet shall include at least Tax and Non-Tax Receivables.

In practice, there are many other events that can give rise to a Receivable, which represents an addition to the government’s net assets. The entitlement of government is not confined to simply tax and non-tax receivables, but rather extends to many other economic resources resulting from past events that give rise to rights on the part of government. These will need to be explained in greater detail in this Technical Bulletin.

According to IPSAS, revenue may be differentiated as between two major categories – exchange transaction revenue and non-exchange transaction revenue. An exchange transaction results in the entity receiving goods and/or services, or the elimination or reduction of a debt, in return for the furnishing of equivalent or near equivalent value or the use of the entity’s assets. For example, a transaction involving the sale of goods and/or services, or the rental of buildings and facilities, or the rendering of services from which revenue is typically received, such as the management of water facilities and toll roads.

Meanwhile, non-exchange transactions consist of revenue arising from the use of government powers, such as the levying of direct and indirect taxation, stamp duties, fines, and the receipt of grants and donations.

Chapter VIII (Finance) of the 1945 Constitution provides, inter alia, that the State shall adopt an annual budget by law, and that taxing and other compulsory revenue collection powers be empowered by law. Chapter VIII also states that taxes and other compulsory levies constitute the principal source of government revenues for financing its activities as set out in the annual budget.

Government has the right to collect tax and non-tax revenues. With regard to the issue of fiscal decentralization, some tax and non-tax revenue collection powers are delegated to local governments. As part of the effort to achieve fiscal balance, some of the Central Government’s revenues are shared with Local Governments through transfers in the form of General Transfers (DAU), Special Transfers (DAK), and Revenue Sharing (DBH). In addition, the Provinces also share part of their revenues with District/Municipal Governments, such as in the case of fuel taxes, motor vehicle taxes, and vehicle registration taxes.

Other events or transactions that give rise to Accounts Receivable on the part of government include such things as loan agreements, sale or swap agreements, partnership agreements, and agreements for the provision of services. The financial relationship between the Central Government and Local Governments, for example, gives rise to fiscal balancing obligations on the part of Central Government, and Liabilities/receivables as between the Central Government and Local Governments. Accounts Receivable may also arise as a consequence of intergovernmental relations. Other events that can give rise to Accounts Receivable include the unlawful infliction of losses on the state.

Guidelines are also need as regards the recognition of financial rights arising as a result of sale agreements, partnership agreements, and agreements for the provision of services. To date, Accounts Receivable have only been recognized based on their nominal value without having regard to collectability or the characteristics of the debtor. This gives rise to a high level of moral hazard in the case of Accounts Receivable as it can result in financial rights of government being misused or not being reported.

Given the wide diversity of Receivables in terms of scope, nature, and characteristics, as described above, it is deemed necessary to issue this Technical Bulletin so as to provide guidelines and create a uniformity of perception as regards the identification, measurement, and presentation of Accounts Receivable for the benefit of those charged with the preparation of government financial statements, those who use such statements and those responsible for auditing such statements.

Given the complexities involved in the identification, measurement, and presentation of Accounts Receivable, and the fact that each type of receivables has its own system of financial management, we first need to create a uniformity of perception as to when a transaction can be recorded as a receivable that increases the net assets of government. Accordingly, this scope of this Technical Bulletin excludes the following types of receivables:

a. Receivable arising from back to back loan;

b. Receivable arising from Revolving Funds;

c. Receivable arising from social assistance expenditure.

CHAPTER II

EVENTS GIVING RISE TO ACCOUNTS RECEIVABLE

A. Collection of Central/Local Government Revenues

Accounts Receivable commonly arise in government accounting as a result of arrears in revenue collection, the granting of loans and other transactions that give rise to financial rights in the context of governmental administration. Central Government revenues are categorized as Tax Revenues, Non-Tax Revenues, and Grant Revenue; while Local Government revenues are categorized as Own-Source Revenue, Transfer Revenue, and Other Legitimate Revenue, with the principal component of Own-Source Revenue being Tax Revenue.

1. Tax Receivables

Taxes may generally be defined as public levies designed to replenish the Central/Local Government Treasury which, according to law, must be paid for the purpose of financing public expenditure, and in respect of which the taxpayer receives no direct compensation. The provisions governing the levying of taxes are set out in detail in the tax legislation. Given that the collection of taxes is based on the sovereign rights of the State and is not linked to service-provision performance, and given that the Government Accounting Standards provide that assets are to be accounted for on an accrual basis, tax receivables arise at the time when the right of the state to collect them arises.

There are two methods of tax collection commonly employed – self assessment, which the taxpayer estimates and calculates the taxes that he owes, and through the issuance of Tax Assessments by the Revenue Service.

In the case of income tax self-assessment, the cutoff date for the submission of taxpayer annual returns is the end of March of the following year. Should there be any Tax Assesment at the end of book year, whether referring to the previous fiscal year or the current fiscal year, this gives rise to claims against the taxpayers concerned, less the amounts already paid into the Treasury. Thus, the Balance Sheet will present the amount of the tax arrears that have yet to be settled by taxpayers.

In situations where the amount of tax owed is determined by the Revenue Service, such as in the cases of Land and Building Tax, Restaurant Tax and Advertising Tax, tax receivables are recognized at the end of the year based on the Tax Assessments or other similar documents that have been issued up to 31 December of the fiscal year concerned, less the amounts that have already been paid by taxpayers.

Sometimes tax collection fails being realized so that arrears build up. In such cases, should no agreement be reached between the Revenue Service and the taxpayer, then an appeal mechanism is available. If a tax receivable is made the subject of an appeal to the Tax Tribunal, it will continue to be recorded as an asset of the Line Unit concerned, and the taxes receivables balance will only be updated after a definitive decision has been handed down by the tribunal.

Taxpayers frequently have a number of different types of tax obligations, and some of these may have been overpaid and some underpaid. In such a situation, so long as a Determination of Overpayment or Underpayment of Taxes has yet to be issued by the Revenue Service, suspected underpayments of taxes will be recorded as a tax receivable, while suspected overpayments will be recorded as a debt in the Short-Term Liabilities Account.

2. Non-Tax Receivables

There are many types of Accounts Receivable that arise as a result of the collection of revenues other than tax revenues by Central/Local Government. In the case of the Central Government, such non-tax revenues include oil, gas, mining, and forestry revenues, and the state's share of the profits of Government Business Enterprises. At the Local Government level, such revenues include "retribution", that is charges to the public collected by Local Government for the accorded services, such as for healthcare services and public transportation route licenses.

Those Line Units that are responsible for the collection of non-tax revenues are required to properly administer their revenue-collection systems. Such receivables can only be processed by the accounting system after the amounts owed have been determined, as shown by the issuance payment demand or assessment. Should at the end of the reporting period there still be revenue claims in respect of which demands or assessments have yet to be issued, the Line Units in question are required to calculate the amount of such non-tax revenues and to prepare the necessary documents for their recovery. It is these documents that then serve as the references for the recognition of non-tax receivables for presentation on the balance sheet.

Receivables in the form of government's share of Central/Local Government Business Enterprise's profits arise if the enterprise’s Shareholders’ General Meeting resolves to pay a certain portion of profits to the Central/Local Government, as the case may be. Should all of the legal requirements have been fulfilled but payment has yet to be made as per 31 December, then the government’s right shall be recorded as an Account Receivable-Government Business Enterprise Dividend.

Accounts Receivable in the form of revenue from Local Government “retribution” charges are recognized upon the provision of the relevant services by the Line Unit in accordance with its duties and functions. An example of such a receivable would be a situation where a Local Government’s Markets Agency has not received the unpaid rental of kiosks at the end of the year.

Long-standing receivables that have proved difficult to collect are transferred to the State Assets and Auctions Service (KPKNL) for collection in accordance with the prevailing legislation and regulations. In respect of such receivables, they will continue to be recognized as assets on the balance sheet of the Line Unit concerned, and the fact that they have been transferred to the KPKNL must be disclosed in the Notes to the Financial Statements. The KPKNL does not recognize the transferred receivables as assets, but is required to disclose them in the Notes to the Financial Statements of the KPKNL. Similarly, if KPKNL hold collateral pledged in respect of such receivables which belongs to other Line Unit, this must also be disclosed in the Notes to the Financial Statements of the KPKNL.

With regard to the write-down of such Accounts Receivable, this may only be effected after the KPKNL recovery process has been exhausted. Accounts Receivable write-downs are carried out based upon the provisions of the prevailing laws and regulations, and it is only after a Write-Down Determination has been issued that the receivable in question can be removed from the Balance Sheet.

Accounts Receivable that have been written down must continue to be recorded on a non-accounted (“extra comptable”) basis.

3. Accounts Receivable Denominated in Foreign Currency

Given that the United States dollar General Treasury Account is maintained by the Directorate General of the Treasury (through the Directorate of Treasury Cash Management), transactions may in practice be denominated in United States dollars, such as in the case of tax and non-tax revenues collected in United States dollars. Should there be evidence at the end of the accounting period of Accounts Receivable denominated in United States dollars, these shall be converted into rupiah at the prevailing Bank Indonesia median conversion rate.

B. Contractual Relations

There are various types of contractual relations that may be entered into as between government agencies and third parties which give rise to Accounts Receivable, such as loan, sale, service-provision, and partnership agreements.

1. Loan Agreements

An Account Receivable can arise as a result of the extending of a loan by government to another government, individual, Central/Local Government Business Enterprise, private corporation, or other organization.

The types of loans extended by government vary, and include subsidiary loan agreements between the Central Government and Local Governments, intergovernmental loans, investment fund loans, regional loans and loans arising from Revolving Funds.

In general, the terms and conditions of such loans are set out in a loan agreement, and, for budgeting purposes, the loans themselves are allocated to the Financing Budget. The recognition of the loan as an Account Receivable takes place at the time the loan is disbursed from the Central/Local Government Treasury. The amount of the loan is adjusted downwards when there is receipt into the central/local government treasury in line with repayments of principal or the repayment of the entire loan. Repayments of principal are recognized as Financing Receipts, with the contra account being accounts receivable.

Should the loan agreement provide for the charging of interest and the possibility of penalties, then these shall be recognized at the end of every year as interest receivable and penalties receivable in the amounts of the interest and penalties owed up to 31 December of the operative year.

Given the complexity of the issues arising in the case of Revolving Fund loans these shall be dealt with by separate Technical Bulletins. Receivables from the subsidiary loan agreements are not part of this account receivables, but part of non-permanent investment.

2. Sale Agreements

Government is entitled to alienate state assets under the provisions of the laws and regulations in effect, provided that all of the necessary approvals have been obtained. The alienating of state assets may take various forms, including sale agreements. An asset may be sold on a cash or installment basis. Should the asset in question be sold on credit or an installment basis, then the outstanding sale price is recorded as an installment sale receivable and presented as an asset on the balance sheet of the Line Unit that has title to it based on the prevailing laws and regulations.

3. Partnerships

For the purpose of optimizing the utilization of its assets, government may enter into mutually beneficial partnership arrangements with third parties, provided that these comply with the provisions of the laws and regulations in effect. Such partnerships include Build, Operate, Transfer, and Build, Transfer, Operate agreements. The right and obligation of each party in the partnership are stated in the partnership agreement. A receivable arises on the part of government should such an agreement give rise to a government entitlement that is capable of being quantified in monetary terms and which has not been paid as per the end of the fiscal year concerned on 31 December. In such a case, the government's claim will be recognized and presented as an Account Receivable on the balance sheet.

4. Provision of Facilities/Services

A government receivable can also arise in connection with the provision of facilities by government to a third party, such as an mineral exploration license. A receivable arises on the part of government should such an agreement give rise to a government entitlement that is capable of being quantified in monetary terms and which has not been paid as per the end of the fiscal year concerned on 31 December. In such a case, the government's claim will be recognized and presented as an Account Receivable on the balance sheet.

6. Advance Payment Transactions

Should government have an agreement with a third party for the provision of services based on agreed performance over a certain period of time and under which government must make an advance payment, should the agreed performance not have been delivered by the end of the reporting period, then the government’s excess payment is recognized as a claim in the Prepaid Expenses Account.

C. Intergovernmental Transfers

The need for fiscal balance, whether vertical or horizontal, results in intergovernmental transfers. These transfers may be from the Central Government to Local Government, from a provincial government to district/municipal governments, or between district/municipal governments. Such transfers are made based on the prevailing laws and regulations, namely the Fiscal Transfers Act 2004 (No. 33 of 2004) and its implementing regulations.

As part of the fiscal balance process, there are two main transfer channels from Central to Local Government, namely, the Decentralization Fund and the Deconcentration Fund. The Decentralization Fund consists of General Transfers (DAU), Revenue Sharing Transfers (DBH), and Special Transfers (DAK). The payment mechanisms in each case differ. General Transfers are paid based on amounts appropriated in the National Budget, and subsequent amendments thereto. Revenue Sharing Transfers are paid based on realized revenue collection, and Special Transfers are paid based on the capacity of Line Units to utilize funding allocations for programs and activities in accordance with the prevailing legislation and regulations.

These different payment mechanisms have consequences as regards the recognition of Revenue and Accounts Receivable as per 31 December, or at the end of the fiscal year. In the case of General Transfers, these are pre-calculated and based on Presidential Decree, and are paid every month, with the overall amounts being divided into 12 installments. Under normal conditions, a Local Government should have no outstanding General Transfer Receivables. Nevertheless, should General Transfers not be paid on time by the Central Government, and this is officially acknowledged by the Central Government, the Local Government shall recognize the sums owed as Receivables.

Revenue-Sharing Transfers are paid based on actual revenue collection by the Central Government. Should per 31 December the Central Government have issued an official document stating the amount of revenue-sharing funds to be paid, the Local Government shall acknowledge its entitlement as an Account Receivable on the Balance Sheet. Conversely, should the Central Government not have issued such a document by the end of the fiscal year, the Local Government shall not recognize its estimated entitlement as an Account Receivable. In such circumstances, it shall be sufficient to provide information on the matter in the Notes to the Financial Statements.

Special Transfers can only be claimed by a Local Government based on actual program realization in the field. The National Budget payment mechanisms contain strict rules for the disbursement of funds, which mean that in normal circumstances no Account Receivable should arise in the case of Special Transfers.

Revenue-Sharing Transfers between a provincial government and district/municipal governments are also based on actual revenue collection of fuel tax, ground- and surface water tax, and motor vehicle taxes. Accordingly, the mechanism for recognizing such transfers is the same as in the case of Revenue-Sharing Transfers from the Central Government.

D. Losses inflicted on Central/Local Government

Accounts Receivable arising out of the infliction of losses on Central/Local Government are generally referred to as Indemnity Claims (TGR) and Treasury Claims (TP). An Indemnity Claim is laid against a civil servant or other government employee, other than a Treasurer, by his direct superior in respect of losses inflicted upon Central/Local

Government as a result of negligence or an illegal act. Meanwhile, Treasury Claims are laid by the State Audit Board (BPK) against Treasurers who have inflicted losses upon Central/Local Government as a result of negligence or an illegal act.

The resolution of Indemnity and Treasury Claims may be brought about on an out-of-court basis or through the legal process. Should an out-of-court settlement be arrived at after the completion of the investigation process and the issuance of a Declaration of Absolute Liability (SKTM), the claim in question will be recognized as a Treasury Claim/Indemnity Claim Receivable, as the case may be, and be presented in the Other Assets Account on the Balance Sheet for amounts to be received within more than 12 months, or as an Account Receivable-Current Assets in the case of amounts that are expected to be received within the coming 12 months.

Should the party against whom a claim has been laid opt to go to court, then it is sufficient to disclose the claim in the Notes to the Financial Statements until such time as a judicial decision has been handed down. Recognition of the claim will only take place after a copy of the court’s verdict has been received and a Demand Notice has been issued.

Should assets be seized by the Central/Local Government as surety, then this must be disclosed in the Notes to the Financial Statements.

CHAPTER III

ACCOUNTS RECEIVABLE ARISING FROM COLLECTION OF CENTRAL/LOCAL GOVERNMENT REVENUES

Generally speaking, Central/Local Government revenues consist of two main categories – tax revenues and revenues other than tax revenues (PNBP). At the Central Government level, the latter are known as non-tax revenues, while at the Local Government level they are known as “retribution”. While government has a strong legal basis for collecting revenues, in practice taxpayers frequently build up arrears, which gives Accounts Receivable on the part of Central/Local Government. In this chapter we will discuss Accounts Receivable arising from the collection of Central/Local Government revenues.

A. Types

This category of receivables may arise at both the Central Government and Local Government levels. Given the different powers vested in the Central Government and Local Governments, these receivables are of different types depending on whether we are talking about the Central Government or a Local Government. One of the objectives of this Technical Bulletin is to bring about standardization at both the Central Government and Local Government levels. The receivables that arise in both reporting entities essentially consist of tax and non-tax receivables. However, the terminology employed differs as between the Central Government and Local Governments. Accordingly, the discussion of non-tax receivables in this Technical Bulletin will distinguish based on the regulations applicable to each reporting entity. Consequently, the receivables that arise because of the prevailing regulations may be distinguished as follows:

- Tax Receivables, applicable to both the Central Government and Local Governments;
- Non-tax revenue receivable, applicable only to the Central Government;
- Local Government "Retribution" Receivables, applicable only to Local Governments;
- Other Own-Source Revenue Receivables, applicable only to Local Governments.

1. Tax Receivables

Tax Receivables are receivables that arise in respect of tax Liabilities, as governed by the tax legislation, that have not been settled as per the end of the reporting period. Based on their respective powers, a variety of tax revenues can be collected by the Central Government, provincial governments and district/municipal governments.

1.1. Central Government Tax Receivables

At the Central Government level, tax receivables arise as a result of arrears owed by taxpayers in respect of the following taxes:

a. Domestic Taxes

- Income tax (Act No. 7 of 1983, as amended for the 3rd times by Act No. 17 of 2000);
- Value Added Tax (Act No. 8 of 1983, as amended for the 2nd time by Act No. 18 of 2000);
- Land and Building Tax (Act No. 12 of 1985, as amended by Act No. 12 of 1994);
- BPHTB (Land and Building Ownership Transfer Tax) (Act No. 21 of 1997, as amended by Act No. 20 of 2000);
- Excise Duties (Act No. 11 of 1995, as amended by Act No. 39 of 2007);
- Other taxes.

b. Taxes on International Trade

- Import Duties (Act No. 10 of 1995, as amended by Act No. 17 of 2007);
- Export Duties

At the Central Government level, taxes are collected on a self-assessment basis. This means that the taxpayer himself calculates the amount of taxes he owes based on the provisions of the laws and regulations in effect. Based on his calculations, he then pays his taxes directly into the state Treasury. However, a difference may arise as between the amount of tax paid and the amount actually owed. Should such underpayment take place, then a tax receivable arises.

A tax receivable can generally be identified at the end of the fiscal year based on the issuance of a Tax Demand (SKP) at the end of the book year in respect of the taxes that have not been paid.

In addition, a tax receivable may arise after the issuance of an SKP in a situation where the taxpayer lodges an appeal. Under the prevailing regulations, such an appeal may be lodged provided that the taxpayer makes a minimum percentage down payment based on the amount set out in the SKP. In such a case, the tax receivable will be recorded in the amount set out in the SKP, less the amount already paid by the taxpayer, rather than as the amount originally set out in the SKP.

1.2. Tax Receivables at the Provincial Government Level

Under Act No. 34 of 2000, Local Government taxes are distinguished as between the provincial government level and the district/municipal government level. The taxes that may be levied by a provincial government are as follows:

a. Taxes on motor vehicles and water transportation vehicles;

b. Taxes on registration of motor vehicles and water transportation vehicles;

c. Taxes on motor vehicle fuels;

d. Taxes on the extraction and utilization of ground- and surface water.

Receivables in respect of these taxes may arise due to taxpayer arrears resulting from the amounts paid being different from the amounts stated in the Demand Notices issued by the provincial government, which will result in the issuance of Underpayment of Tax Notices (SKPDKB). These notices set out the amount of taxes owed, the amount of tax credits, the amount by which taxes were underpaid, the amount of administrative fines imposed, and the amount that still must be paid.

1.3. Tax Receivables at the District/Municipal Government Level

The taxes that may be imposed by district/municipal governments are as follows:

a. Hotel Tax;

b. Restaurant Tax;

c. Entertainment Tax;

d. Advertising Tax;

e. Street-Lighting Tax;

f. Mining Tax (Class C minerals);

g. Parking Tax;

h. Miscellaneous taxes.

The amount of taxes receivable stated in the financial statements will be the same as the amounts stated in SKPs that have yet to be paid as per the end of the period. The precise figure can be obtained by conducting an inventory of unpaid SKPs as per the end of the period.

2. Non-tax revenue receivable

The collection of non-tax revenues is governed by the Non-Tax Revenues Act 1997 (No. 20 of 1997), which provides that each State Ministry/Institution shall be allocated an estimate of collectable non-tax revenues for the fiscal year in accordance with its principal duties and functions. In practice, such non-tax revenues are received by the relevant State Ministry/Institution treasurer prior to further payment into the State Treasury. Bearing in mind that revenue is accounted for on a cash basis, in principal all such receipts by a receiving Treasurer should have been paid into the State Treasury by the end of the fiscal year. However, should it happen that monies have not been delivered into the State Treasury by the end of the fiscal year, these must be recorded as Cash at Receiving Treasurers on the balance sheet of the State Ministry/Institution concerned. The recording of Non-tax revenue receivable at a State Ministry/Institution at the end of the year must be supported by Payment Demands or other valid documents.

In the National Budget, non-tax revenues are categorized as follows:

2.1. Revenues from natural resources

a. Oil Revenues;

b. Gas Revenues;

c. Mining Revenues;

d. Forestry Revenues;

e. Fishery Revenues;

f. Geothermal Revenues.

2.2. Revenue from Government Business Enterprise Dividends

This consists of the share of government business enterprise profits accruing to the government.

2.3. Other non-tax revenues

a. Sale and Rental Revenues;

b. Revenues for services

c. Interest income;

d. Revenues from the Prosecution and Court Services;

e. Revenues from the education sector;

f. Recovered Gratuities and Monies in Corruption Cases;

g. Revenues from fines and fees;

h. Miscellaneous revenues.

A non-tax revenue receivable arises in respect of non-tax revenues that have not been paid at the end of the fiscal year, as evidenced by the issuance of a Notice of Underpayment.

3. Local Government “Retribution” Revenues

“Retributions” are levied by Local Governments to private individuals and corporations for extending certain licenses and services. Under Act No. 34 of 2000, the types of “retributions” can be levied by Local Governments in respect of the following:

a. Provision of general services;

b. Provision of business services;

c. Granting of particular types of licenses.

Receivables arise in respect of these “retributions” when at the reporting date there are still “retributions”, as set out in Local Government “Retributions” Notices (SKRD), that have yet to be paid. An SKRD is an official notice setting out the amount of the “retributions” that must be paid. Should the “retributions” still not be paid as per the reporting date, the Local Government will issue a

Payment Demand (STRD), which will restate the amount of the charge due, and any administrative penalties in the form of interest and/or fines. The amount of Local Government “Retributions” Receivables recorded in the financial statements will be taken from the values stated in the STRDs.

4. Other Own-Source Revenue

Receivables in the case of Other Own-Source Revenue can consist of profits arising from Local Government assets whose management has been transferred to other entities, such as dividends from Local Government Business Enterprises. Other Own-Source Revenue includes interest income, the proceeds of asset sales, indemnity and Treasury claims, fines, proceeds from the use of Local Government assets/government services, and so forth. Other Own-Source Revenue in general arises as a result of contractual relationships, and will be discussed in greater detail later in this Technical Bulletin.

B. Recognition

As stated earlier, Accounts Receivable arising from the collection of government revenues broadly consist of tax receivables, non-tax receivables, and other tax receivables, whether at the Central Government or Local Government levels. Recognition of receivables arising from government revenues is preceded by the recognition of the revenues themselves.

In order to recognize as a receivable arising from the operation of the prevailing laws and regulations, the following criteria must be fulfilled:

1. A tax demand must have been issued; and/or
2. A payment demand must have been issued, and recovery measures have been undertaken.

In the case of the recognition of taxes paid on a self-assessment basis, every taxpayer is required to pay his tax liabilities in accordance with the provisions of the laws and regulations in effect without the necessity for a prior official tax demand. Taxes owed in this case amount to the value of the taxes that must be paid under the tax legislation, and declared by taxpayers to the Revenue Service through the submission of tax returns.

After the recognition of revenue, the taxpayer concerned must pay his tax Liabilities in accordance with provisions of the legislation. In respect of taxes that have not been paid by the time of the cutoff date, a Tax Demand will be issued as the basis for the recovery of the taxes owed. The amount of tax receivables is taken from the amounts set out in Notices of Underpayment of Taxes (SKPKB) or Notices of Underpayment of Customs Duties (SPKPBM).

Revenue that fulfills the requirements for recognition and where a demand and notice of underpayment are to be issued later may be recognized as a receivable. The estimation of such revenue must be supported by valid evidence and it must not continue in arrears for more than one subsequent accounting period.

In respect of receivables whose recovery has been assigned to the KPKNL by a particular Line Unit, the Line Unit in question will continue to recognize the said receivables.

C. Measurement

Accounts Receivable that arise as a result of the prevailing law are recognized after the issuance of payment demands, and recorded based on the nominal values stated in such demands. In general, the principal element of the tax receivable as a result of the law enforcement is a revenue potential; this means that the said receivables arise because taxpayers have failed to pay the taxes they owe to the Central/Local Government Treasury. Consequently, every payment demand issued by government involves the making of an official determination; the value of the receivables accruing to government is based on the overall value of the determinations made.

The measurement of Revenue Accounts Receivable arising as a result of the operation of law is based on the following:

1. The amounts that have still not be paid as per the reporting date based on the Notices of Underpayment that have been issued;

2. The amounts that have still not be paid as per the reporting date based on determinations of the Tax Tribunal in the case of taxpayers who appeal against their tax determinations;

3. The amounts that have still not be paid as per the reporting date in respect of every tax determination that has been appealed to the Tax Tribunal where the Tribunal has yet to hand down a final decision;

4. The net realizable value of revenue receivables that are not specifically provided for by the legislation, and where Allowance for Bad Debts policies has been adopted by government.

In respect of both tax and non-tax revenue receivable denominated in foreign currency, these are presented on the balance sheet in rupiah based on the prevailing Bank Indonesia median rate.

D. Presentation and Disclosure

1. Receivables Accounting

The records that need to be made in accounting for receivables arising by operation of law are illustrated below:

- Tax receivables determined based on the amounts set out in Notices of Underpayment of Taxes (SKPKB), Notices of Underpayment of Customs Duties (SPKPBM) or equivalent notices;

No.	Account Code	Description	Debit	Credit
		Recognition of Taxes Receivable		
	XXX	Taxes Receivable	XXX	
	XXX	Current Fund Equity - Receivables Provision		XXX

- Non-Tax Revenues Receivable is determined based on the payment demands that have been issued by the State Ministry/Institution concerned.

No.	Account Code	Description	Debit	Credit
		Recognition of Non-Tax Revenues Receivable		
	XXX	Non-Tax Revenues Receivable	XXX	
	XXX	Current Fund Equity - Receivable Provision		XXX

- Local Government “Retribution” Receivable is determined based on the payment demands issued by the Local Government concerned.

No.	Account Code	Description	Debit	Credit
		Recognition of Local Government “Retribution” Receivable		
	XXX	Local Government “Retribution” Receivable	XXX	

	XXX	Current Fund Equity - Receivables Provision		XXX

- Other Own-Source Revenue Receivable is determined based on the payment demands that have been issued by the Local Government concerned.

No.	Account Code	Description	Debit	Credit
		Recognition of Other Own-Source Revenue Receivable		
	XXX	Other Own-Source Revenue Receivable	XXX	
	XXX	Current Fund Equity - Receivables Provision		XXX

2. Balance Sheet Presentation

The presentation of receivable that arise by operation of law represent claims that must be paid by taxpayers during the subsequent year so that none of these receivables may exceed one subsequent period. Receivables that arise by operation of law are presented on the Balance Sheet as

Current Assets. The following is an illustrative Balance Sheet entry for such receivables:

Balance Sheet

Per 31 December 20XX

	Assets			Liabilities	
	Current Assets			Short-Term Liabilities	
	…………			Long-Term Liabilities	
	Taxes Receivable	XXX			
	Non-tax revenue receivable	XXX		Fund Equity	
	Current Receivables	XXX		Receivables Provision	XXX
	Allowance for Bad Debts *)	(XXX)			
	Other Assets				

*) Should Allowance for Bad Debt policies be applied.

3. Disclosure in the Notes to the Financial Statements

Receivables must be presented and disclosed in a satisfactory manner in the Notes to the Financial Statements. The information that must be disclosed includes the following:

1. The accounting policies employed in valuing, recognizing and measuring receivables;
2. Details of the types and balances by age for the purpose of identifying the level of collectability;
3. Explanations on the recovery of receivables and whether they are still being handled by the State Ministry/Institution or Local Government concerned, or have been transferred to the KPKNL;
4. Information on collateral or sureties that have been pledged.

The presentation of receivable that arise by operation of law represent claims that must be paid by taxpayers during the subsequent year so that none of these receivables may exceed one subsequent period. Receivables that arise by operation of law are presented on the Balance Sheet as Current Assets.

CHAPTER IV
ACCOUNTS RECEIVABLE ARISING FROM CONTRACT

A. Types

Besides the Accounts Receivable described in earlier chapters, there are in addition Contract Accounts Receivable. This classification consists of Accounts Receivable that arise based on contracts, and may be subdivided into different categories based on the type of contract involved, which also determines the manner in which they are presented. The types of contract that give rise to receivables consist of loan agreements, sale agreements, service-provision agreements, and partnership agreements.

1. Loan Agreements

A receivable arises as a result of the extending of a loan by government, provided that such loan complies with the provisions of the laws and regulations in effect. Government loans may be extended to private individuals, Central/Local Government Business Enterprises, private enterprises, or other organizations. The types of loans, and the resulting receivables, vary widely, and include the following;

a. Receivables that arise from a subsidiary loan agreement/SLA, namely, Investment Fund Accounts (RDI) and Local Development Accounts (RPD);

b. Loans extended by a Revolving Fund.

The terms and conditions that give rise to a loan receivable are set out in the relevant loan agreement. For budgeting purposes, the financing of a government loan is included in the financing budget, and recognition of the loan as a receivable takes place at the time when the loan funds are disbursed from the Central/Local Government Treasury.

The value of such a receivable declines with the repayment of principal to the Central/Local Government Treasury. The repayment of loan principal into the Central/Local Government Treasury is not treated as non-tax revenues, but rather as the return of an asset, and is categorized as financing receipts in the Budget Realization Statement (LRA), while simultaneously reducing the value of Accounts Receivable on the Balance Sheet.

Should the loan agreement provide for penalties, interest, and commitment fees, then at the end of each year such interest, penalties and commitment fees that were chargeable during the current period and which were still outstanding as per 31 December of the current year must be recognized.

Accounts Receivable that arise from the extending of loans must be classified by maturity so that those which constitute Current Assets can be differentiated from those that are Non-Current Assets. An outstanding loan that is due to mature within 12 months subsequent to the end of the fiscal year is categorized as a Current Asset.

Accounts Receivable arising from loans extended by a Revolving Fund are dealt with in a separate Technical Bulletin due to their specific characteristics and different treatment from ordinary receivables.

Receivables from subsidiary loan agreement is not part of this receivable, but part of the non permanent investment.

2. Sale Agreements

Receivables that arise by way of a sale agreement normally involve the assignment of Central/Local Government assets to third parties. The assignment of Central/Local Government assets may take place by way of sale, exchange, grant or government equity participation, provided that the provisions of the laws and regulations in effect have been complied with. At the end of the reporting period, all such receivables must be supported by objective evidence of the assignment of the Central/Local Government assets in question.

Sales of government assets made by way of installment (such as in the case of the sale of government official residences and motor vehicles) will generally stretch over more than one accounting period. Such receivables must be supported by evidence of auction or other acceptable evidences showing that the Central/Local Government assets in question have actually been sold on an installment basis.

Accounts Receivable arising as a result of the sale of a government asset by installment must be reclassified at the end of each accounting period into two groups, namely, (1) those that will become due in the subsequent accounting period, and (2) those that will extend beyond the subsequent accounting period. In the case of group (1), these are presented as assets in the Current Receivables from Sales by Installment account, while those in group (2) are presented as Receivables from Sales by Installment in the Miscellaneous Assets account.

3. Partnerships

For the purpose of optimizing the utilization of government resources, such as idle land or buildings, a Line Unit may enter into a partnership with a third party based on mutual benefit in accordance with the provisions of the laws and regulations in effect. Thus, such partnerships may be defined as collaborative agreements between two or more parties that are committed to undertaking jointly managed activities using the assets and/or business rights that they own. Examples of such partnerships include build, transfer, operate agreements and build, operate, transfer agreements. The rights and obligations of each party must be set out in the collaboration agreement.

A Build, Transfer, Operate agreement is one where a government asset in the form of an infrastructural facility is used by a third party/investor after the third party/investor has constructed the said infrastructural facility and transferred it to the government. The government then allows the third party/investor to operate it for a certain period of time. The transfer of the asset to the government is accompanied by an obligation on the part of the government to make payment to the third party/investor. A Build, Transfer, Operate agreement may also involve profit-sharing arrangements between the third party/investor and the government.

Meanwhile, A Build, Operate, Transfer agreement is a collaborative venture involving the use of government assets by a third party/investor, with the third party/investor undertaking to construct an infrastructural facility, and to operate it for a certain period of time, and to subsequently transfer it to the government after the expiry of the concession period.

Under such agreement the government is entitled to receive payment in the form of a share of the profits arising from the concession or a certain payment as agreed in advance by the parties, this will give rise to a receivable, which if not fully paid by the partner by the end of the reporting period will be recorded as an asset in the government Balance Sheet.

4. Facility/Service-Provision Agreements

Facility/service-provision agreements entered into by a Line Unit in general are intended to better utilize government assets by renting or leasing them out. Such agreements normally involve such things as renting office buildings, official residences, and heavy machinery owned by government.

The terms and conditions of the lease or rental must be set out in an agreement that clearly sets out the rights and obligations of both parties.

Such agreements will give rise to claims on the part of government, which if not fully paid by the end of the accounting period will be recorded as receivables on the Balance Sheet.

B. Recognition

Events that give rise to the types of claims described above, that is, claims arising from loan, sale, partnership, and facility/service-provision agreements may be acknowledged as Account Receivable and recorded as Assets in the Balance Sheet if the following criteria are fulfilled:

1. They must be based on an agreement clearly setting out the rights and obligations of the parties;
2. The receivable must be capable of being measured;
3. A demand notice has been issued and recovery efforts undertaken;

4. The claim has not been paid as per the end of the reporting period.

C. Measurement

Measurement of contract receivables is carried out in the following ways:

a. Loan Agreements

A receivable arising from the extending of a loan is valued based on the amount disbursed by the Central/Local Government Treasury. If the loan takes the form of an asset/service, measurement shall be based on fair value as per the reporting date.

Should the loan agreement provide for penalties, interest, commitment fees, and other loan fees, then at the end of the reporting period such interest, penalties, commitment fees and other loan fees still outstanding as per the end of the reporting period must be recognized.

b. Sale Agreements

A receivable arising from a sale is recognized in the amount stated in the sale agreement that is still outstanding as per the end of the reporting period. Should the agreement provide for a discount, the value of the receivable must be recorded based on net value.

c. Partnership Agreements

A receivable is recognized based on the terms and conditions of the agreement.

d. Facility/service-provision agreements

A receivable is recognized based on the facilities/services provided by government as per the end of the reporting period, less any payments or advance payments already made.

D. Presentation and Disclosure

1. Contract Receivable Accounting

After identifying events that give rise to claims, classifying them, recognizing them and measuring them, the next stage is recording, which is carried out as follows:

1) Receivables arising from Short-Term Loan Agreements:

No.	Account Code	Description	Debit	Credit
	XXX	Receivables from Local government/State Owned		

		Enterprise/ District Owned Enterprise	XXX	
	XXX	Current Fund Equity – Receivables Provision		XXX

2) Receivables arising from sales:

No.	Account Code	Description	Debit	Credit
	XXX	Current Receivables from Sales by Installment *)	XXX	
	XXX	Current Fund Equity - Receivables Provision		XXX

*) Part of installment sales which will be settled within 12 months after the reporting date.

3) A receivable that arises from partnership agreement is categorized as a Current Asset where claims extending beyond 12 months cannot be precisely quantified. Accordingly, in line with the basic principle of conservatism in accounting, such claims cannot be recognized as receivables.

No.	Account	Description	Debit	Credit

	Code			
	XXX	Receivables from Partnerships with Third Parties	XXX	
	XXX	Current Fund Equity - Receivables Provision		XXX

In the case of partnership agreements that extend to 30 years or more and which clearly stipulate the government’s fixed entitlements and variable rights, the receivables must be calculated based on a certain percentage of total gross revenue or net income after tax. If the precise amount of the receivable can be quantified with certainty, a journal entry must be made to record it. In the case of rights that cannot be quantified with certainty, it will be sufficient to disclose these in the Notes to the Financial Statements.

4. Receivables arising from Facility/Service-Provision Agreements

No.	Account Code	Description	Debit	Credit
	XXX	Lease Receivables	XXX	

	XXX	Current Fund Equity - Receivables Provision		XXX

2. Balance Sheet Presentation

Contract receivables are presented in the Balance Sheet as Current Assets or Miscellaneous Assets, depending on the time when they become due and owing. Presentation on the Balance Sheet will be as follows:

Balance Sheet

Per 31 December 20XX

	Assets			Liabilities	
	Current Assets			Short-Term Liabilities	
	…………			Long-Term Liabilities	
	Receivables				
	Taxes Receivable	XXX			
	Non-tax revenue receivable	XXX		Fund Equity	
	Current Loan Receivables	XXX		Receivables Provision	XXX

	Current Sales by Installment Receivables	XXX			
	Current Third Party Partnership Receivables	XXX			
	Total Receivables				
	Allowance for Bad Debts *)	(XXX)		Investment Fund Equity	
	Net Receivables	XXX		Disinvestments of Miscellaneous Assets	XXX
	MISCELLANEOUS ASSETS				
	Loan Receivables	XXX			
	Sales by Installment Receivables	XXX			
	Lease Receivables	XXX			

*) Should Allowance for Bad Debt policies be applied.

3. Disclosure in the Notes to the Financial Statements

Receivables must be disclosed in a satisfactory manner in the Notes to the Financial Statements. The information that must be disclosed includes the following:

1. The accounting policies employed in valuing, recognizing and measuring receivables;
2. Details of the types and balances by age for the purpose of identifying the level of collectability;
3. Explanations on the recovery of receivables and whether they are still being handled by the State Ministry/Institution or Local Government concerned, or have been transferred to the KPKNL;

CHAPTER V

ACCOUNTS RECEIVABLE ARISING FROM INTERGOVERNMENTAL TRANSFERS

Government Accounting Standard No. 1 states that Transfer Receivables are “rights of a reporting entity to receive payment from another reporting entity as a consequence of statutory regulations.” Based on this definition, Transfer Receivables may arise as a consequence of the difference between the time when a right arises and the time when payment is made by way of transfer. Should a reporting entity as per the date of the financial statements have a right to receive a transfer from another reporting entity, then the first reporting entity shall record the anticipated payment as a Transfer Receivable.

A. Types of Transfer Receivables

Statutory transfers made the Central Government to Local Governments consist of Revenue-Sharing Transfers, General Transfers, Special Transfers and Special Autonomy Fund Transfers. The first three types of transfer are known as fiscal-balance funds, and are governed by Government Regulation No. 55 of 2005 on fiscal adjustment. Transfers from the Special Autonomy Fund currently only apply in the case of Nanggroe Aceh Darussalam and Papua Province, as provided for by the Papua Special Autonomy Act 2001 (No. 21 of 2001). In addition to these transfers, other forms of transfer may be made in a particular in line with government programs, such as fiscal adjustment funds and infrastructure funds, which differ from year to year.

Transfers from provincial to district/municipal governments consist of revenue sharing, as provided for by Act No. 34 of 2000 amending Act No. 18 of 1997 on Local Government Taxes and “Retribution”, as further provided for by Government Regulation No. 65 of 2001 on Local Government “Retribution”. Besides revenue-sharing transfers, provincial governments may also make financial assistance transfers to district/municipal governments in line with budget programs.

In the case of transfer receivables, recognition and measurement adhere to the rules governing the specific transfer mechanisms for each type of transfer. The type of transfer will subsequently determine that type of receivable that arises.

The following table shows the different types of transfer and the basis for making such transfers:

Transfer Type and Basis

No.	Type of Transfer	Basis
1.	Revenue Sharing	MOF Regulation 04/PMK.07/2008
2.	General Transfers	MOF Regulation 04/PMK.07/2008
3.	Special Transfers	MOF Regulation 04/PMK.07/2008
4.	Special Autonomy Transfers	MOF Regulation 04/PMK.07/2008
5.	Other Transfers	MOF Regulation 04/PMK.07/2008, and other regulations
6.	Revenue Sharing by Provinces	Government Regulation 65/2001
7.	Financial Assistance from Provinces	Regulated by each province
8.	Interregional Transfers	Regulated by each Local Government

B. Recognition

1. Revenue-Sharing Receivables

Revenue-sharing transfers consist of a share of tax and natural resources revenues that are paid by the central government to Local Governments and by provincial governments to district/municipal governments. In practice, the share of revenue transferred as revenue sharing depends on actual revenue collection by the Central Government.

Revenue-sharing receivables are calculated based on the share of tax and natural resources revenues to which the Local Government in question is entitled but which have yet to be transferred. The definitive amount to which a Local Government is entitled is generally determined near the end of the fiscal year. If the definitive amount has been determined, as evidence by a Minister of Finance Decree, but there are still sums owing to the Local Government at the end of the fiscal year, these sums will be recorded as Revenue-Sharing Receivables by the Local Government concerned.

2. General Transfer Receivables

General Transfers consist of funds that will be definitively received by the Local Government. The Fiscal

Balance (Adjustment) Act 2004 (No. 33 of 2004) provides that the total value of General Transfers shall amount to not less than 26% of net domestic revenues, as set out in the National Budget. Following up on the National Budget appropriations, a Presidential Regulation is issued that stipulates the precise amounts of the transfers to be made to each provincial, district and municipal government in the fiscal year. In practice, a Local Government receives 1/12th of the annual amount due each month.

Should any amounts remain outstanding at the end of the fiscal year, these amounts shall be recorded as receivables by the Local Government concerned.

3. Special Transfer Receivables

Special transfers are appropriated in the National Budget and allocated to particular areas for specific purposes that come within the jurisdiction of Local Governments having regard to national priorities. Should the Local Government in question have submitted its payment claim and this has been verified by the Central Government so that a definitive entitlement has been agreed upon, then this gives rise to a receivable owed by the Central Government. The value of such receivable is equivalent to the amount of the claim that has yet to be transferred by the Central Government.

4. Special Autonomy Transfer Receivables

Special Autonomy Transfers are appropriated in the National Budget for payment to Nanggroe Aceh Darussalam and Papua Provinces. The transfers are made for the purpose of helping the funding of a special programs that come within the jurisdiction of the provinces, and are paid in tranches. Should the provincial government have submitted its claim but the central government has not made the transfer by the required date, this gives rise to a receivable from the Central Government. The value of such receivable is equivalent to the amount of the claim that has yet to be transferred by the Central Government.

5. Other Transfer Receivables

In addition to the transfers described above, the government may decide to make other transfers in accordance with the provisions of the laws and regulations in effect. For example, in fiscal year 2008 the Central Government transferred additional special infrastructure and adjustment funds to Papua Province, which were transferred in tranches over the course of the year. There were two ways in which these funds could have been channeled: First, unconditional disbursement in tranches at the end of specific periods or months, and second, disbursement in tranches depending on the fulfillment of certain conditions. Should disbursement be unconditional, then should there be outstanding amounts due at the end of the year, this will give rise to a receivable on the part of the Local Government. In the case of conditional disbursement, a failure on the part of the Central Government to disburse the funds in a timely fashion despite the fulfillment of the agreed conditions will give rise to a receivable on the part of the Local Government.

6. Revenue Sharing by Provinces

Revenue-sharing transfers from the provinces to district/municipal governments are carried out based on actual revenue collected by the provinces. In general, regulation of receivables of this type is carried out in the same way as recognition of revenue-sharing receivables from the Central Government.

Revenue-sharing receivables from a provincial government are calculated based on the share of actual tax and natural resources revenues that are due to district/municipal governments and which have yet to be paid. The definitive amounts to which the district/municipal governments are entitled are normally determined by the end of the year. No receivables will arise if all of the funds to which district/municipal governments are entitled have been transferred. Should a district/municipal government’s entitlement have been confirmed by gubernatorial decree at the provincial level but there are still outstanding amounts payable at the end of the fiscal year, these amounts will be recorded as receivables by the Local Government concerned.

7. Interregional Transfer Receivables

Interregional transfers occur based on agreements between regions or where there are regulations or policies in place that require the making of such transfers.

Interregional Transfer Receivables are calculated based on actual revenue to which the region in question is entitled that has not been paid. Should the recipient region’s entitlement have been confirmed by a decree of the head of the transferor region but there are still outstanding amounts payable at the end of the fiscal year, these amounts will be recorded as receivables by the recipient region.

8. Excess Transfer Receivables

It may happen that excess transfers are made during a particular fiscal year. In such case the recipient entity is required to return the excess to the transferor entity. Such excess transfers may arise as a result of administrative error, such as where transfers that should have been made to Local Government A were in fact made to Local Government B. In such case, a receivable will arise on the part of Local Government A.

Excess transfers may also arise due to operation of the statutory provisions, such as in a case where the amount of a special transfer is greater than the amount budgeted for by the Local Government. For example, a particular Local Government is allocated a special transfer of Rp 40 billion and all of this has been paid by the Central Government. However, the Local Government was only able to spend Rp 38 billion during the course of the fiscal year. This means that the remaining Rp 2 billion must be repaid to the Central Government. Should the amount of Rp 2 billion have been capable of being definitively determined prior to the end of the fiscal year, this will give rise to a receivable on the part of the Central Government.

The occurrence of an excess transfer may be ascertained immediately after the transfer has been made, such as where an excess general transfer payment has been made in connection with a claim by a Local Government, or, second, following the conducting of an audit.

The occurrence of excess transfers may also be ascertained as a result of other events, such as during the verification process for the financial statements, or after the financial statements have been published.

Where an excess transfer has been made, the entity that made the transfer has the right to demand that the recipient return the excess funds. Should they not be returned, then the transferor has the right to deduct them from the following year's allocation.

c. Measurement

Transfer receivables are measured in the following ways:

1. Revenue-sharing receivables are presented as the amounts that have yet to be received as per the reporting date in accordance with the rules governing such transfers.

2. General transfer receivables from the Central Government to the provinces and district/municipal governments are presented as the amounts that have yet to be received.

3. Special transfer receivables are presented based on claims that have been verified and approved by the Central Government.

D. Presentation and Disclosure

1. Receivables Accounting

The records that need to be made in accounting for transfer receivables are as illustrated below:

No.	Account Code	Description	Debit	Credit
	XXX	Revenue Sharing Receivables	XXX	
	XXX	General Transfer Receivables	XXX	
	XXX	Special Transfer Receivables	XXX	
	XXX	Current Fund Equity - Receivables Provision		XXX

2. Balance Sheet Presentation

Transfer receivables represent claims that must be settled by the transferor during the subsequent accounting period and no receivables of this type may extend beyond one subsequent accounting period. The balance Sheet presentation of transfer receivables is as follows:

Balance Sheet

Per 31 December 20XX

	Assets			Liabilities	
	Current Assets			Short-Term Liabilities	
	Revenue-Sharing Receivables	XXX		Fund Equity	
	General Transfer Receivables	XXX		Receivables Provision	XXX
	Special Transfer Receivables	XXX			
	Current Receivables	XXX		Fund Equity	

3. Disclosure in the Notes to the Financial Statements

Transfer Receivables must be disclosed in a satisfactory manner in the Notes to the Financial Statements. The information that must be disclosed includes the following:

1. The accounting policies employed in valuing, recognizing and measuring receivables;
2. Details of the types and balances by age for the purpose of identifying the level of collectability; and
3. Explanations regarding the efforts made to recover the receivables.

More specifically, the following disclosures need to be made:

- Transfer Receivables

Transfers are treated as revenue on the part of the recipients. Should such revenue not have been received by the end of the reporting period, it will be recorded as a current receivable. Thus, all types of transfer receivables are included in current assets. The Notes to the Financial Statements then set out information on the details of each type of receivable and its value and basis for recognition. The Notes to the Financial

Statements will also explain whether a transfer receivables extend beyond one accounting period.

- Excess Transfer Receivables

Should an excess transfer receivable arise, this will be included in the miscellaneous receivables account on the Balance Sheet.

CHAPTER VI
INDEMNITY AND TREASURY CLAIM RECEIVABLES

A. Types

A receivable may arise as a result of a definitive claim for indemnification resulting from losses inflicted on Central/Local Government where such claim satisfies the prevailing legal requirements.

Such receivables may generally be categorized into two types based on the source of the claim for indemnification having regard to the provisions of the laws and regulations in effect, namely:

A. Receivables arising as a result of Indemnity Claims (TGR)

These receivables arise as a result of an Indemnity Claim laid against a civil servant or other government employee, other than a Treasurer, by his direct superior in respect of losses inflicted upon Central/Local Government as a result of negligence or an illegal act.

B. Receivable arising as a result of Treasury Claims (TP)

These receivables arise as a result of Treasury Claims laid by the State Audit Board (BPK) against Treasurers who have inflicted losses upon Central/Local Government as a result of negligence or an illegal act.

B. Recognition

An indemnity or treasury claim receivable must be supported by the issuance of a Declaration of Absolute Liability (SKTM), showing that it has been agreed that the matter will be settled out of court. An SKTM is an admission that the losses inflicted on the Central/Local Government are the fault of the individual concerned, and an acknowledgement that he is prepared to make good those losses. If an indemnity/treasury claim is pursued through the courts, then recognition of the claim as a receivable will only take place after a definitive judicial decision has been handed down.

C. Measurement

Where there is a recognition of liability, an indemnity or treasury claim is measured in the following ways:

1. The indemnity/treasury claim is presented as a Current Asset in the amount that becomes due and owing during the current year and which will be recovered in the following 12 months based on the agreement between the parties.

2. The indemnity/treasury claim is presented as a Miscellaneous Asset if it is to be settled within a period of more than 12 months.

D. Presentation and Disclosure

1. Receivables accounting

After identifying events that give rise to indemnity/treasury claims, classifying them, recognizing them and measuring them, the next stage is recording, which is effected in the following way:

No.	Account Code	Description	Debit	Credit
		Recognition of Receivable		
	XXX	Indemnity/Treasury Claim Receivable	XXX	
	XXX	Current Fund Equity - Other Assets Provision		XXX

2. Balance Sheet Presentation

Balance Sheet

Per 31 December 20XX

	Assets			Liabilities	
	Current Assets			Short-Term Liabilities	
	…………			Long-Term Liabilities	
	Taxes Receivable	XXX			
	Non-tax revenue receivable	XXX		Fund Equity	
	Current Indemnity/Treasury Claim Receivables	XXX		Allowance for Bad Debts	
	Allowance for Bad Debts			Investment Fund Equity	
	OTHER ASSETS	XXX		Other Assets Provision	
	Indemnity/Treasury Claim Receivables	XXX			

3. Disclosure in the Notes to the Financial Statements

Besides the Balance Sheet presentation, information on indemnity/treasury receivables must be disclosed in a satisfactory manner in the Notes to the Financial Statements. The information that must be disclosed includes the following:

a. The accounting policies employed in valuing, recognizing and measuring indemnity/treasury claim receivables;

b. Details of the types and balances by age for the purpose of identifying the level of collectability;

c. Explanations on the recovery of indemnity/treasury claim receivables and whether they are still being handled by the State Ministry/Institution or Local Government concerned, or have been transferred to the KPKNL;

d. Indemnity/treasury claims that are still in the process of being resolved, whether out of court or through the legal process.

e. Any assets/monies that have been seized in connection with the claims.

CHAPTER VII
WRITE-DOWNS OF RECEIVABLES

A. Allowance for Bad Debts

An asset in the form of a receivable on the Balance Sheet must be maintained so that its value is the same as its net realizable value. One tool for making the necessary adjustments is an Allowance for Bad Debts. The policies to be applied as regards the Allowance for Bad Debts need to be carefully considered in accordance with the principle of conservatism. This is essential so that the said policies are capable of realizing the anticipated value of the receivable as per the date of the Balance Sheet.

The Allowance for Bad Debts is calculated and recorded in the same period as the receivable arises so as to reflect the true value that is capable of being recovered. The appropriate size of the Allowance for Bad Debts can be predicted based on past experience by analyzing outstanding Accounts Receivable balances. The collectability of a receivable must be considered on a loss contingency basis. Accordingly, the making of an Allowance for Bad Debts based on rational calculation can protect assets from the possibility of losses.

The calculation of the Allowance for Bad Debts involves an estimation of uncollectable receivables during each accounting period. This allows for a more convincing presentation of net realizable value on the Balance Sheet.

The calculation of the Allowance for Bad Debts can be based on the age of the receivables or pre-determined amounts. The choice of the basis to be used should be predicated on data analysis, historic experience, and the policies and efforts adopted by government in identifying and recovering receivables.

The making of an Allowance for Bad Debts is not to be confused with the write-downs of bad debts, which are governed by Government Regulation No. 14 of 2005 on the procedures for Central/Local Government bad debt write-downs. Consequently, an Allowance for Bad Debts will always appear in the financial statements, or at the very least in the Notes to the Financial Statements, for so long as the receivable continues to be recorded and has not been written down in accordance with the prevailing regulations.

Policies governing the making of an Allowance for Bad Debts need to be formulated in advance. The size of the Allowance reduces the value of receivables in the financial statements so as to reflect the amounts that can actually be recovered. Further relevant information, such as the nominal value of the receivable, the size of the Allowance for Bad Debts, and the basis for the making of the Allowance for Bad Debts should be provided in the Notes to the Financial Statements.

1. Calculation of Allowance for Bad Debts

Determining the percentage of the Allowance for Bad Debts must be based on formal accounting policies that are set out in an official decision, both in the case of the Central Government and Local Governments.

In formulating Allowance for Bad Debts policies based on the age of receivables, it is better to differentiate between different classes of receivable, both in determining age and the size of the allowance. Receivables vary greatly in nature and as a consequence the nature of uncollectable receivables will also vary greatly. Accordingly, experience and prudence is of the utmost importance in calculating the size of the Allowance for Bad Debts.

The following illustration presents an aging schedule for receivables that are still in circulation.

Aging Schedule and Allowance for Bad Debts

Per 31 December 20XX

No.	Description	Age of Receivable			Total
		1-2 years	2-3 years	More than 3 years	
01.	Receivable	5.000.000	2.000.000	1.000.000	8.000.000
	% Allowance	5%	10%	20%	
	Allowance for bad debts	250.000	200.000	200.000	650.000

The above illustration shoes how that percentage size of the Allowance for Bad Debts can be calculated. An entity' substantive accounting policies in this regard will depend greatly on the characteristics of the receivables, experience and the principle of conservatism.

2. Recording of Allowance for Bad Debts

The journal entry recording the Allowance for Bad Debts does not constitute an expense but rather a correction so that the value of receivables presented on the Balance Sheet accords with their net realizable value, as show in the following illustrative entry:

No.	Account Code	Description	Debit	Credit
		Adjustment Journal Entry		
	XX	Current Fund Equity -	XXX	

		Receivables Provision		
	XX	Allowance for Bad Debts		XXX

At the time when the receivable arises, the journal is debit to receivables and the contra account is the Current Fund Equity – Receivables Provision. The amount of the Allowance for Bad Debts is presented as a reduction (contra account) to the receivable.

3. Presentation of Allowance for Bad Debts

The presentation of the Allowance for Bad Debts in the Balance Sheet represents a reduction in the value of receivables.

Balance Sheet

Per 31 December 20XX

	Assets			Liabilities	
	Current Assets			Short-Term Liabilities	
	…………			Long-Term Liabilities	
	Taxes Receivable	XXX			

	Non-tax revenue receivable	XXX		Fund Equity	
	Current ……….	XXX		Current Fund Equity - Receivables Provision	XXX
	Allowance for Bad Debts	(XXX)			
	Receivables (Net)				
	Assets				

3. Disclosure in the Notes to the Financial Statements

Besides the Balance Sheet presentation, information on receivables must be disclosed in a satisfactory manner in the Notes to the Financial Statements. The information that must be disclosed includes the following:

1. The accounting policies employed in valuing, recognizing and measuring the receivables;
2. Details of the types and balances by age for the purpose of identifying the level of collectability;

3. Explanations on the recovery of the receivables and whether they are still being handled by the State Ministry/Institution or Local Government concerned, or have been transferred to the KPKNL.

B. Write-Outs

The writing out of an account receivable, by which we mean ending the recognition of the account receivable, is based on the processes gone through as part of the effort to recover the receivable. In general, the writing out of a receivable is effected after it is paid in cash or in some other manner.

Besides payment, receivables may also be written out by two other methods: write-offs and write-downs.

Write-off procedures must be designed having regard to the relevant legal provisions, be in line with healthy governmental accounting, be applied prudently, comply with the principles of good governance, be based on formal, transparent and accountable documentation, and be beneficial to government.

Write-offs, which relate to the civil law, and write-downs, which relate to receivables accounting, must be applied separately.

The write-off of a receivable is an internal management decision, and represents an accounting process and determination that is intended to maintain the value of a receivable in line with its net realizable value.

The purpose of a write-off is to present assets in a more realistic way, and equity in a more appropriate way. A write-off will most likely have an impact on the size of revenue in the Budget Realization Statement.

The Balance Sheet reflects the substance economic status of a receivable. The substantive economic status of an uncollectable receivable reflects an acknowledgement on the part of the creditor that the debtor is incapable of paying, together with the substantive legal status of a debtor, such as in a situation where the debtor has been declared insolvent, suffers from an incurable disease, has gone missing, or has passed away without heirs.

Meanwhile, the writing down of a receivable connotates the relinquishment of civil claims against the debtor, and, from the legal perspective, entails the removal of the receivable from the books of account. An asset constitutes a right, so that the elimination of such right means that it must also be eliminated from the Balance Sheet. Should government decide to erase or forego a debt owed by a debtor, but fails to remove the debt from its books, this means that the Balance Sheet presentation will be overstated and will fail to present accurate and reliable information. The writing off of a receivable does not, however, automatically erase the debt from the legal perspective. Recovery efforts may still continue in some form even though the government has given up and has removed the debt from its books. Consequently, receivables that have been written off continue to be recorded on a non-accounted (“extra comptable”) basis.

The Balance Sheet represents a public, written statement of the financial position of the reporting entity. Consequently, if a debtor’s name does not appear in the schedule of Accounts Receivable appended to the financial statements or in the Notes to the Financial Statements, the debtor in question may well feel that his debt has been forgiven.

A write-down represents an acknowledgement that the government has given up on the effort to recover a particular debt, and may be preceded by a legal announcement to this effect, together with the reasons and the background to the government’s decision.

The writing off of a receivable does not automatically mean an end to recovery efforts. However, it does mean a change in recording status from “intra comptable” to “extra comptable.”

An Off-Balance Sheet Report is required to record receivables that have been written off but which legally speaking have not been extinguished, and/or where the write-off has not been informed to the debtor and where recovery efforts will continue to be intensively pursued.

Information should be presented in the Notes to the Financial Statements explained the considerations leading to write-offs, and the amounts of such write-offs.

1. Write-Offs

The writing off of a receivable is a consequence of the writing down of the said receivable, and is made based upon a decision by an authorized official. Such decision shall be set out in an official documents, which provides objective evidence of the write-off from the accounting perspective.

Criteria for Write-Offs

In general, the criteria for the writing off of a receivable are as follows:

1. The write-off must provide greater benefit than loss.

   a. It provides an objective picture as regards the financial position of the accounting entity and reporting entity;

   b. It provides an objective picture of the equity position and the resulting reduction in equity;

   c. It reduces the accounting/administrative burden arising from the recording of unrealizable claims.

2. If necessary, an in in-depth analysis may be required of the legal consequences of the write-off on the government Balance Sheet prior to the submission of the write-off proposal to the authorized officer for the making of a final decision.

3. A write-out based on a formal decision by a higher authority shall be accompanied by a statement stating whether the civil claim is being written down or the receivable written off. The authorized officer shall act in a reactive manner, rather than taking the initiative, based on a proposal by an officer

responsible for conducting analyses and proposing write-offs.

Accounting for Write-Offs

Based on the write-off decision as the source document, the receivable in question is removed from the books by making an adjustment memo. The journal entry recording the write-off will be as follows:

No.	Account Code	Description	Debit	Credit
	XXX	Current Fund Equity – Receivables Provision	XXX	
	XXX	Allowance for Bad Debts	XXX	
	XXX	Accounts Receivables		XXX

Even though a receivable has been written off, the accounting unit must continue to record its value on a non-accounted (extra-comptable) basis.

Disclosure of Write-Offs

The writing off of a receivable must be adequately disclosed in the Notes to the Financial Statements. So as to provide sufficient information, a description should be give of, for example, the type of receivable, the name of the debtor, the value of the receivable, the number and date of the write-off decision and such other explanations as may be deemed necessary.

2. Write-Downs

All transactions that give rise to a receivable must be managed in such a way as to optimize their quality from the legal and economic perspectives. The writing down of a receivable is a highly sensitive decision, replete with economic consequences, the possible loss of the claim or the right to assign the claim. Consequently, the decision to make a write-down must be based on appropriate criteria, procedures and policies so as ensure that such decisions are made in a way that defends the economic and legal interests of the government.

A write-down is made based on the provisions of the laws and regulations in effect. Consequently, when a Line Unit fails, after having made all reasonable efforts, to recover a receivable, it is not permitted itself to make the write-down, but rather must act based on the prevailing legal provisions. For example, in the case of a non-tax revenues receivable that cannot be collected by a Central Government Ministry/Institution, the claim in question must first be transferred to the KPKNL for further recovery efforts.

Meanwhile, the State Ministry/Institution shall continue to record the receivable on its Balance Sheet, while adding a note that the receivable has been transferred to the KPKNL. It is only after the KPKNL has found it impossible to recover the receivable that a write-down may be effected. Under the State Treasury Act 2004 (No. 1 of 2004), the Minister of Finance is entitled to write down receivables up to a value of Rp 10 billion, while receivables of up to Rp 10 billion can only be written down by the President, and those of more than Rp 100 billion by the President with the approval of the House of Representatives (DPR). In the case of Local Government, the governor/mayor/district head is entitled to make write-downs of up to Rp 5 billion in value, while those in excess of Rp 5 billion may only be written down by the governor/mayor/district head with the approval of the local legislature.

Criteria for Writing-down Receivables

In general, the criteria for the writing down of all or part of a debt are as follows:

1. In order to assist a party that has rendered services to the state so as to prevent the situation from worsening, such as in the case of SMEs that are

incapable of repaying loans received from the government.

2. So as to provide for renewal, to improve the image of the creditor or so as to elicit moral support for future challenges.

3. So as to reflect the reality that the debtor is incapable of paying.

4. So as to allow for the restructuring of a debt, for example, through the writing down of interest, converting interest arrears into the principal of a new loan, rescheduling or reducing the loan interest rate.

   For example, the resolution of a debt owed to the state by a government business enterprise in a manner determined by the Director General of the Treasury as part of an effort on the part of the government to reduce the debt burden on the enterprise. Following agreement by the State Receivables Settlement Committee, as set out in an Amended Loan Agreement or RDI Loan Agreement, such resolution may be brought about by rescheduling, amending the terms of the agreement, changing the status of the loan to government share ownership. Or writing out the receivable, in accordance with article 12 of Director General of the Treasury Directive No. PER-31/PB/2007, dated 29 May 2007, on technical guidelines for the recovery of state receivables.

5. In a situation where all other approaches have failed or are incapable of being applied, for example, the sale of shares resulting from a debt-to-equity swap, or the auctioning off of loan collateral.

6. The writing down of a receivable in accordance with generally applicable civil law, insolvency law, industrial law (for example, international financial or banking law), capital market law, tax law, or following benchmarking of write-down procedures in other countries).

7. Where a write down will be difficult to cancel from the legal perspective after the decision has been taken and put into effect (save in a case where the decision is legally defective).

C. Payment of Written Off Receivables

Even after a receivable has been written off, it may be possible the debtor eventually decides to pay. Should this happen, the payment in question will be recorded as a cash receipt during the period concerned by crediting the estimated tax/non-tax revenues receivable or through the Financing Receipts account, depending on the type of receivable involved.

The journal entry recording the payment of a tax/non-tax receivable that has been written off will be as follows:

No.	Account Code	Description	Debit	Credit
	XXX	Cash	XXX	
	XXX	Tax/Non-Tax Revenues		XXX

Should the receivable that has been written off arising from a loan extended to a third party, the payment will be treated as a Financing Receipt.

The journal entry in this case will be as follows:

No.	Account Code	Description	Debit	Credit
	XXX	Cash	XXX	
	XXX	Financing Receipts		XXX

Consequently, the journal entry reviving the loan/investment will be as follows:

No.	Account Code	Description	Debit	Credit
	XXX	Long-Term Non-Permanent Investments	XXX	
	XXX	Fund Equity - Investments Disposal		XXX

As the loan/investment had previously been written off, this must be corrected in the journal, as shown below:

No.	Account Code	Description	Debit	Credit
	XXX	Fund Equity - Investments Disposal	XXX	
	XXX	Long-Term Non-Permanent Investments		XXX

KSAP