TECHNICAL BULLETIN OF GOVERNMENT ACCOUNTING STANDARDS

TECHNICAL BULLETIN 08
ACCOUNTING FOR LIABILITIES

THE GOVERNMENT ACCOUNTING STANDARDS COMMITTEE (KSAP)

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Technical Bulletin on Accounting for Liabilities

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CHAPTER I INTRODUCTION

A. Background

The statutory provisions governing the management of the state finances require governmental entities to prepare financial statements to account for budgetary spending and the use of other resources over the designated accounting periods. These financial statements are primarily used to compare revenues, expenditures, transfers and financing with the budgetary figures that have been set in respect of each of these, to evaluate the financial condition of the reporting entity, to appraise the effectiveness and efficiency of the entity, and to assist in ensuring compliance with the provisions of the laws and regulations in effect. The preparation and presentation of the financial statements also helps ensure transparency and accountability in the management of the state finances. In order to achieve this goal, the reporting entity is required to provide information on its Assets, Liabilities and Fund Equity.

Liabilities are present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources. Government Liabilities may arise from the procurement of goods and services, or salaries that have yet to be paid, the settlement of which will require expenditure on the part of the government.

Government Liabilities may also arise from the requirement to repay financing from domestic sources (bonds), and loans from international institutions, other governments or domestic financial institutions.

Besides these types of liabilities, there are also liabilities whose precise value and time of payments are as yet unknown. This are referred to as Contingent Liabilities. A Contingent Liability may be defined as:

(a) potential liabilities that arise from past events whose existence is made certain by the occurrence or non-occurrence of one or more events in the future that are not entirely under the control of an entity; or

(b) present liabilities that arise as a result of a past event, but which are not recognized due to:

1. it is not probable that the entity will disburse beneficial economic resources to settle the liability; or

2. the precise amount of the liability is incapable of being reliably measured.

Accounting for liabilities consists of recognition, measurement, and the presenting and disclosing of all transactions that give rise to debts, whether short term or long term, including the treatment of debt restructuring, debt write-outs and the capitalization of loan expenses.

In pure cash-based accounting, liabilities are generally limited to long-term loans in the form of advance payments from the State Treasury, and Third Party Liabilities Withheld. This is because the application of the cash basis to budgeting, which in practice means that that reporting entities do make procurements near the end of the year or if sufficient budgetary funding is not available as this would mean that payment would have to be made in the subsequent year. However, it is impossible to avoid debts arising, such as where a natural disaster like an earthquake occurs near the end of the year so that emergency procurements of goods and services are needed so as to support the relief effort, even though the budgetary appropriations for such purposes are inadequate.

As part of the switch from cash-based to accrual accounting, the classification and types of liabilities presented on the Balance Sheet need to be in line with the characteristics of each liability category. In accordance with Government Accounting Standard No. 09 on Accounting for Liabilities, this Technical Bulletin provides explanations on liabilities, whether domestic or external, long term or short term, so as to provide guidelines in manual form for governmental accounting and reporting entities in accounting for liabilities.

This technical bulletin is called technical Bulletin for Debt since it elaborate more on debt accounts rather than presented liabilitiy.

B. Classification of Liabilities

Government liabilities are classified into two types, namely, Short-Term Liabilities and Long-Term Liabilities.

1. Short-Term Liabilities

Under paragraph 11 of Government Accounting Standard No. 09, 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.

Short-Term Liabilities consist of the following:

1. Accounts Payables
2. Accrued Interest
3. Third Party Liabilities Withheld
4. Current Long-Term Liabilities
5. Transfer Liabilities
6. Treasury Bills Liabilities
7. Other Short-Term Liabilities, include:
    - Expenses Payable
    - Unearned Revenue

2. Long-Term Liabilities

As stated in the second sentence of paragraph 11 of Government Accounting Standard No. 09, a Long-Term Liability is a liability that is expected will be repaid within a period of more than twelve months from the reporting date. Long-Term Liabilities include:

1. External Liabilities
2. Domestic Liabilities - Bank
3. Domestic Liabilities – Bonds

4. Installment Purchase Liabilities

5. Other Long-Term Liabilities

CHAPTER II SHORT-TERM LIABILITIES

The accounting treatment of Short-Term Liabilities encompasses three aspects, namely, recognition, measurement, and presentation and disclosure. Each account in Short-Term Liabilities will now be studied based on these three aspects.

A. Accounts Payable

Accounts Payable arise from contracts or procurements of goods and services that have not been paid as per the reporting date.

Recognition

In a transaction based on FOB Destination Point (C&F), a debt is recognized at the time of receipt of purchased goods that have still to be paid for. In the case of a FOB Shipping Point transaction, a debt is recognized at the time the goods that have yet to be paid for are delivered to the shipper.

In procurements of services, a debt is recognized at the time the services, or part thereof, are delivered in accordance with the agreement, where such services have yet to be paid for as per the reporting date.

In the case of a contract for the construction of infrastructure or machinery, a debt is recognized at the time of completion of part of all of the said infrastructure or machinery, as evidenced by the official report on the process of the work or its handover, where payment has yet to be made as per the reporting date.

Measurement

A debt to a third party, or Account Payable, is valued based on the extent of the government entity’s obligation that has yet to be paid based on the agreement or contract. Should the terms of payment set out in the agreement provide for a discount should payment be made within a certain period (for example, 2/10, n/30), the amount of the debt will be determined based on its nominal amount, including or excluding the discount, depending on the accounting policies applied.

Should a third party/contractor built a infrastructure facility or machine that accords with the specifications set out in its agreement with the government, and all or part of the facility or machine have been handed over but have yet to be paid for as per the reporting date, such transaction will be recognized as an Account Payable in the amount that has yet to be paid.

Presentation and Disclosure

Accounts Payable in general consist of Short-Term Liabilities that must be paid after the goods or services are received. Accordingly, debts of this kind are presented on the Balance Sheet as Short-Term Liabilities, with the details of each debt being disclosed in the Notes to the Financial Statements.

The journal entry recording Accounts Payable will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Fund Equity – short Provisions	XXX	
XXXX	Accounts Payable		XXX

(Short-Term Provisions forms part of Current Fund Equity (reduces Current Fund Equity)

Example:

In December 2007, the government requested PT Inti Karya to carry out maintenance work on the State Secretariat building under Government Work Order No. 250/12/SETNEG/2007, dated 1 December 2007. The total cost of the work was Rp 10,000,000. The work was completed by PT

Inti Karya in December 2007 and handed over to the State Secretariat on 28 December 2007, as evidenced by Handover Report No. 260/12/SETNEG/2007. The work had yet to be paid for by the government as per 31 December 2007. This meant that the government owed a debt of Rp 10,000,000 to PT Inti Karya. Based on the source documentation, including the Work Order and Handover Report, the following journal entry was made for the debt:

Account Code	Description	Debit	Credit
XXXX	Fund Equity - Short-Term Provisions	10,000,000	
XXXX	Accounts Payable		10,000,000

(Short-Term Provisions forms part of Current Fund Equity (reduces Current Fund Equity)

B. Accrued Interest

Accrued Interest arises as a result of the government’s Short-Term Liabilities, including Trerasury bills liabilities, external long-term liabilities, bond liabilities, long-term liabilities to the banking sector, and other long-term liabilities. Such debts often require the payment of interest to the holders of the securities.

Accrued Interest also includes commitment fees, that is, additional debts that arise in connection with the loans that have been agreed to and provided by creditors but which have not yet withdrawn by the borrower.

Recognition

Accrued Interest, as part of the interest arising in respect of the debt principal or as commitment fees that have yet to be paid should, in principle, be accrued over the passage of time. In practice, however, it is recognized at the end of each reporting period.

Measurement

The amount stated in the Balance Sheet for this account reflect the amount of the interest or commitment fees that have arisen but have yet to be paid by the government. The extent of these obligations are normally spelled out in percentage terms in the loan agreements.

Presentation and Disclosure

Accrued interest and commitment fees are Short-Term Liabilities outstanding as per the reporting date. The details of each account are presented in the Notes to the Financial Statements.

Accrued interest and commitment fees are disclosed separately in the Notes to the Financial Statements.

The journal entry recording Accrued Interest will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	XXX	
XXXX	Accrued Interest		XXX

(Short-Term Provisions forms part of Current Fund Equity (reduces Current Fund Equity)

Example:

On 1 October 2007, Local Government A received a loan of Rp 1,000,000,000 from Bank Jateng. The loan carried an annual interest rate of 4%, payable each 1 April and 1 October. The loan was to be repaid over 5 years from the date of signature of the agreement. As per 31 December 2007, interest was owed for the 3 months from October to December 2007. Thus, the total interest owed was Rp 1,000,000,000 x 3/12 x 4% = Rp 10,000,000, which was to be paid on 1 April 2008, meaning that the said interest is recorded as a Short-Term Liability.

In this case, the journal entry recording Accrued Interest for 2007 will appear as follows:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	10,000,000	
XXXX	Accrued Interest		10,000,000

C. Third Party Liabilities Withheld

According to paragraph 5 of Government Accounting Standards No. 09, Third Party Liabilities Withheld consist of government debts to other parties as a result of the government's role as a withholder of taxes and other deductions, such as Income Tax (PPh), Value Added Tax (PPN), and Health Insurance (Askes), Pension Fund (Taspen), and Housing Fund (Taperum) contributions.

In the case of the Central Government, Third Party Liabilities Withheld does not include Central Government taxes as these are directly recognized as revenue.

In the case of Local Governments, Third Party Liabilities Withheld consists of Central Government taxes that have been withheld, as well as the Taspen, Bapertarum and Askes contributions that have been deducted from salaries.

The deductions that have been made are then required to be paid to the relevant third party, such as the State Treasury in the case of taxes, and PT Taspen, PT Asabri, Bapertarum, and PT Askes, in the same amounts as were originally deducted.

Recognition

Third Party Liabilities Withheld are supposed to be recognized at the time such a deduction is made by the Central/Local Government Treasurer. However, in practice they are recognized at the end of each reporting period.

Measurement

The amount stated on the Balance Sheet for this account represents the value of the Third Party Liabilities Withheld that have been deducted by which have yet to be paid by the Central/Local Government Treasurer to the entitled recipients.

Presentation and Disclosure

Third Party Liabilities Withheld are Short-Term Liabilities that must be paid in a timely fashion. Accordingly, debts of this kind are presented in the Balance Sheet as Short-Term Liabilities.

In practice as part of the cash-to-accrual accounting basis currently being applied, the presentation of Third Party Liabilities Withheld by Central/Local Government Treasurers comes from transactions as illustrated below:

1. Time of payment of salaries from which third-party deductions are made:

Account Code	Description	Debit	Credit
XXXX	Employee Salaries	XXX	
XXXX	Third Party Liabilities Withheld		XXX
XXXX	Cash		XXX

2. At time of payment of Third Party Liabilities Withheld:

Account Code	Description	Debit	Credit
XXXX	Payment of Third Party Liabilities Withheld	XXX	
XXXX	Cash		XXX

Examples:

Example I:

On 29 December 2007, the Central/Local Government Treasurer paid an employee's salary amounting to Rp 125,000, with Rp 100,000 of this going to the employee himself, Rp 15,000 being deducted for income tax, Rp 7,000 for the pension fund, and Rp 3,000 for the employee's health insurance premium. On 31 December, the pension fund deduction had been paid, while the insurance premium would be paid on 10 January of the following year. In case of Local Government management, the article 21 income tax was to also be paid on 10 January of the following year.

If the above example referred to the Central Government, the journal entries would be as follows:

a. At time of payment of salary and deduction of Third Party Liabilities Withheld

Account Code	Description	Debit	Credit
XXXX	Employee Salaries	125,000	
XXXX	Cash		100,000
XXXX	Third Party Liabilities Withheld Receipts		10,000
XXXX	Income Taxes Revenue		15,000

b. At time of payment of Third Party Liabilities Withheld

Account Code	Description	Debit	Credit
XXXX	Third Party Liabilities Withheld Disbursements	7,000	
XXXX	Cash		7,000

c. At time of recognition of liability on Balance Sheet at end of period

The outstanding amount of Rp 3,000 in Third Party Liabilities Withheld that had yet to be paid at the end of the period is what will be presented on the Balance Sheet. This represents the difference between the amount of Third Party Liabilities Withheld that have been collected and those that have been paid.

Account Code	Description	Debit	Credit
XXXX	Third Party Liabilities Withheld Receipts	10,000	
XXXX	Third Party Liabilities Withheld Disbursements		7,000
XXX	Third Party Liabilities Withheld Outstanding		3,000

2. If the above transaction involved a Local Government, the journal entries would be as follows:

a. At time of payment of salaries and deduction of Third Party Liabilities Withheld:

Account Code	Description	Debit	Credit
XXXX	Employee Salaries	125,000	
XXXX	Cash		100,000
XXXX	Third Party Liabilities Withheld - Taspen		7,000
XXXX	Third Party Liabilities Withheld - Askes		3,000
XXXX	Third Party Liabilities Withheld –Income tax		15,000

b. At time of payment of Third Party Liabilities Withheld:

Account Code	Description	Debit	Credit
XXXX	Third Party Liabilities Withheld – Taspen	7,000	
XXXX	Cash		7,000

At the end of the reporting period, the Balance Sheet balances for the Third Party Liabilities Withheld – Askes account will be Rp 3,000, while that of the Income Tax account will be Rp 15,000.

Example II:

On 23 December 2007, a Disbursing Treasurer paid Rp 4,460,000 for the procurement of office supplies, with Rp 4,000,000 being paid directly to the supplier, Rp 400,000 being deducted for VAT and Rp 60,000 being deducted for income tax. As per 31 December, none of these tax deductions had been paid into the Central Government Treasury.

In this case, the VAT and income tax deductions owed to the Central Government will be recorded in the journal as follows:

Account Code	Description	Debit	Credit
XXXX	Other Cash at Disbursing Treasurer	460,000	
XXXX	Unearned Revenues – Income Tax		60,000
XXXX	Unearned Revenues - VAT		400,000

The income and value added taxes retained by the Local Government constitute Third Party Liabilities Withheld, and are recorded in the journal as follows:

Account Code	Description	Debit	Credit
XXXX	Other Cash at Disbursing Treasurer	460,000	
XXXX	Central Government Taxes Outstanding – Income Tax		60,000
XXXX	Central Government Taxes Outstanding - VAT		400,000

D. Current Portion of Long-Term Liabilities

Current Portion of Long-Term Liabilities consists of that part of Long-Term Liabilities, both domestic and external loans, that will mature and be paid less than 12 months after the date of the Balance Sheet.

Recognition

Recognition in respect of this account is effective at the time of the reclassification of long-term loans that are due to mature less than 12 months after the date of the Balance Sheet for each accounting period, save in the case of Current Long-Term Liabilities that will be refinanced, as referred to in paragraph 14 of Government Accounting Standards 09. Included in Current Portion of Long-Term Liabilities are Long-Term Debts as described in paragraph 17 of Government Accounting Standards 09 where specific conditions have been breached so that these debts become short-term liabilities payable of demand.

Measurement

The amount stated on the Balance Sheet for Current Long-Term Liabilities is the amount that will become due and owied within 12 months after the date of the Balance Sheet. Should a Short-Term Liability Payable on Demand arise, the amount that appears on the Balance Sheet will be the balance of the long-term debt, plus penalties and other obligations that must be borne by the borrower under the loan agreement.

Presentation and Disclosure

Current Portion of Long-Term Liabilities is presented on the Balance Sheet as Short-Term Liabilities.

The details of each type of Current Portion of Long-Term Liabilities are disclosed in the Notes to the Financial Statements.

The journal entry recording Current Long-Term Liabilities will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	XXX	
XXXX	Current Long-Term Liabilities		XXX
XXXX	Long-Term Liabilities	XXX	
XXXX	Long-Term Provisions		XXX

Notes:

1. Short-Term Provisions forms part of Current Fund Equity.
2. Long-Term Provisions forms part of Investments Fund.

Example:

In 2005, the government received a loan of Rp 1,000,000,000 from the ADB, the terms of which were set out in Loan Agreement No. 111/DDDD/04/2004. The loan was to be repaid in 10% annual installments starting in 2007. Thus, as per 31 December 2007, the amount that became due for payment in 2007 amounted to Rp 100,000,000. This is presented in the Current Long-Term Liabilities account under Short-Term Liabilities. The remaining Rp 900,000,000 is recorded in Long-Term Liabilities.

In this case, the journal entry recording Current Portion of Long-Term Liabilities will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	100,000,000	
XXXX	Current Portion of Long-Term Liabilities		100,000,000
XXXX	Long-Term Liabilities	100,000,000	
XXXX	Long-Term Provisions		100,000,000

E. Treasury Cash Advances

Cash Advances received from the Central/Local Government Treasurer are liabilities that arise as a result the Disbursing Treasurer of the State Ministry/Institution or Local Government Line Unit concerned not having repaid unspent petty cash as per the date of the Balance Sheet. This account is only used in the Balance Sheets of State Ministries/Institutions and Local Government Line Units, and is eliminated at the time of preparing the consolidated balance sheet.

Recognition

Treasury cash advances are recognized at the time the Disbursing Treasurer receives the petty cash from the Central/Local Government Treasury.

Measurement

The amount that appears on the Balance Sheet represents the balance that has yet to be paid into or accounted for to the State Treasury as per the date of the Balance Sheet.

Presentation and Disclosure

Treasury Cash Advances are presented on the Balance Sheet as Short-Term Liabilities. The details of the advances to each Treasurer are disclosed in the Notes to the Financial Statements.

The journal entry recording Treasury Cash Advances will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Cash at Disbursing Treasurers	XXX	
XXXX	Treasury Cash Advances		XXX

Example:

On 20 January 2007, the Disbursing Treasurer at the Surabaya office of the Ministry of Religious Affairs received an initial petty cash advance of Rp 5,000,000. During 2007, various purchases were made and the petty cash was replenished accordingly. On 14 December 2007, petty cash expenditure of Rp 3,000,000 on the purchase of office supplies had been accounted for and the appropriate SP2D GU issued. As per 31 December, there was a remaining petty cash balance of Rp 2,000,000 (Rp 5,000,000 - Rp 3,000,000). This balance, which had yet to be repaid to the Treasury, would be recorded as a Treasury Cash Advance and presented in the Balance Sheet as a Short-Term Liability.

In this case, the journal entry recording the Treasury Cash Advance will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Cash at Disbursing Treasurer	5,000,000	
XXXX	Treasury Cash Advance		5,000,000

While the journal entry recording the procurement of office supplies will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Procurement of Goods - Office		

	Supplies	3,000,000	
XXXX	Treasury Receivables		3,000,000

And the entry for recording the SP2D GU:

Account Code	Description	Debit	Credit
XXXX	Treasury Cash Advance	3,000,000	
XXXX	Cash at Disbursing Treasurer		3,000,000

The Treasury Cash Advances balance of Rp 2,000,000 will be presented as a Short-Term Liability.

F. Other Short-Term Liabilities

Other Short-Term Liabilities consist of Short-Term Liabilities that are incapable of being classified as the Short-Term Liabilities described in paragraphs A to E above. This classification includes advance payments for services or goods to be supplied by government to third parties, accounts payable that arise in relation to services that have been received but have yet to be paid as per the reporting date, and funds paid to Disbursing Treasurers under SPM LS that have yet to be disbursed to the entitled parties as per the date of the Balance Sheet.

a. Unearned Revenue

The amount that appears on the Balance Sheet in the Unearned Revenue account represents the cash that has been received for goods/services that have yet to be delivered in all or in part by government as part the date of the Balance Sheet.

Recognition

Unearned Revenue is recognized at the time a third party claim arises against the government in respect of the cash that has been received by the government from the third party for goods/services that have yet to be delivered.

Measurement

The amount stated in the Balance Sheet for this account represents the value of goods/services that have yet to be delivered by government to the third party as per the date of the Balance Sheet.

Presentation and Disclosure

Unearned Revenue is presented as a Short-Term Liability on the Balance Sheet, with the details being disclosed in the Notes to the Financial Statements.

The journal entry recording Unearned Revenue will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Cash	XXX	
XXXX	Unearned Revenue		XXX

At the time of preparing the Balance Sheet as per 31 December, the journal entry recording Unearned Revenue will appear as follows:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	XXX	
XXXX	Unearned Revenue		XXX

(Short-Term Provisions forms part of Current Fund Equity (reduces Current Fund Equity)

<u>Example</u>

On 1 March 2007, Line Unit A received rental income from the leasing of an official residence for 2 years. The income amounted to Rp 24,000,000. Thus, as per the 31 December 2007, the real rental income received by Line Unit A amounted to 10/24 x 24,000,000 = Rp 10,000,000. The remaining Rp 14,000,000 must be recognized as Unearned Revenue and presented as a Short-Term Liability. The

Unearned Revenue Account represents an adjustment account that was opened on 31 December 2007.

The Line Unit A journal entry recording the rental income on the official residence on 1 March 2007 will be as follows:

Account Code	Description	Debit	Credit
XXXX	Debt at Central government Treasury	24,000,000	
XXXX	Income from Rental of Official Residence		24,000,000

The recording of the cash receipt will be carried out by the Central government Treasury.

The adjustment journal entry recording the debt will be as follows:

Account Code	Description	Debit	Credit
XXXX	Short-Term Liabilities Provision	14,000,000	
XXXX	Unearned Revenue		14,000,000

At the start of the following year, reversing entries will be made in respect of the above journal entries.

b. Expenses Payable

Expenses Payable consists of government debts that arise on the basis of routine contracts for the procurement of goods/services from third parties where payment is to be made subsequently. Expenses Payable generally arise because the third parties supply the goods/services on an post-payment basis, such as in the case of electricity, water, and telephone services.

Recognition

Expenses Payable are recognized at the time the claim of the third party arises, which normally takes the form of the delivery of a bill or invoice.

Measurement

The amount stated on the Balance Sheet represents the expenses that have yet to be paid by the government as per the date of the Balance Sheet.

Presentation

Expenses Payable are presented as Short-Term Liabilities.

The journal entry recording Expenses Payable will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	XXX	
XXXX	Expenses Payable		XXX

Note: Short-Term Provisions forms part of Current Fund Equity (reduces Current Fund Equity)

Example:

On 12 December 2007, Line Unit A received a bill from PLN for electricity supplied during October and November, with the amounts billed for each month being Rp 15,000,000 and Rp 17,500,000. As of the reporting date, the two bills had yet to be paid. Thus, on 31 December 2007, Line Unit A had to recognize the unpaid bills as debts amounting to Rp 32,500,000, arising from the consumption of electricity supplies. The said debts are presented as Short-Term Liabilities.

In this case, the journal entry to record the PLN debts will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Fund Equity – Short-Term Provisions	32,500,000	
XXXX	Expenses Payable – Power Supply		32,500,000

c. Third Party Liabilities

Third Party Liabilities consists of the balance of funds originating from SPM LS payments to Disbursing Treasurers that have not been disbursed to those entitled to receive them by the end of the year, such as:

1. The Special Police Fund managed by the National Police Treasurer, the funds for which are disbursed by the National Police Treasurer.
2. Unused Special Investigation Funds managed by the Disbursing Treasurer of the Attorney General’s Office.
3. On call/standby funds managed by Bakornas Disbursing Treasurers.
4. Honorarium SPM LS managed by the K/L Disbursing Treasurer that have not been paid to those entitled.

Recognition

Third Party Liabilities are recognized if at the end of the year there are still SPM LS funds in the hands of Disbursing Treasurers that have yet to be paid to those entitled to receive them.

Measurement

The amount stated on the Balance Sheet for this account represents the funds that have yet to be paid to those entitled to receive them.

Presentation and Disclosure

Third Party Liabilities are presented as Short-Term Liabilities on the Balance Sheet. The details of Third Party Liabilities are disclosed in the Notes to the Financial Statements.

The journal entry recording Third Party Liabilities will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Other Cash at Disbursing Treasurers	XXX	
XXXX	Third Party Liabilities		XXX

Example:

On 15 December 2008, the Disbursing Treasurer of the Surabaya Office of the Ministry of Religious Affairs received SPM LS funds for the payment of honoraria amounting to Rp 25,000,000. As per 31 December, Rp 10,00,000 of these funds had yet to be paid to those entitled. Thus, the unpaid honoraria are recognized as third party liabilities.

The journal entry recording the SPM/LS funds (per 15 December 2008) will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Goods Procurement	25,000,000	
XXXX	Receivables from Central Government Treasury		25,000,000

Meanwhile, the journal entry recording the debts as per 31 December 2008 will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Other Cash of Disbursing Treasurer	10,000,000	
XXXX	Third Party Liabilities		10,000,000

CHAPTER III LONG-TERM LIABILITIES

A. External Liabilities

External Liabilities, or what are normally referred to as foreign loans, are incurred by the government for the purpose of overcoming the budget deficit.

Foreign loans can be grouped into a number of categories, depending on the source of the funds:

(1) From foreign nations;

(2) From multilateral institutions;

(3) From foreign financial and non-financial institutions; and

(4) From non-foreign financial institutions that are domiciled and carry on business outside the territory of the Republic of Indonesia.

The accounting treatment of foreign loans covers 4 aspects, namely, definition, recognition, measurement, and presentation and disclosure in the financial statements.

Definition:

Government Regulation No. 2 of 2006 (on the procedures for the procuring loans and/or receiving grants, and the on-lending of loans) defines a foreign loan as a state receipt, whether denominated in foreign currency, converted foreign currency into rupiah, or rupiah, and whether in the form of goods and/or services, that is received from the foreign lender that must be repaid subject to specific terms and conditions.

The said terms and conditions are set out in a loan agreement that is signed by the lender and borrower. At a minimum, the loan agreement should set out the following information:

1. The loan ceiling and/or the drawable ceiling applicable per period;
2. The effective date;
3. The interest rate;
4. The commitment fee in the undisbursed loans;
5. The loan period and interest payments.

In general, starting from the effective date a commitment fee is charged on the undisbursed foreign loans in the amount as set out in the relevant loan agreements.

The amount of a loan that has been disbursed by the lender becomes the loan principal for the borrower and is subject to an interest charges as provided for in the loan agreement.

Under Minister of Finance Regulation No. 143/PMK.05/2006 (on the procedures for the procuring loans and/or receiving grants, and the on-lending of loans), foreign loans may be drawn down by the borrower based on 4 mechanisms:

1. Opening of letter of credit;
2. Direct payment;
3. Opening of special account;
4. Reimbursement.

A letter of credit (L/C) is a written promise by the L/C issuing bank to pay an exporter (beneficiary) provided that the terms of the L/C have been fulfilled.

Direct Payment (DP) refers to the drawing down of the loan funds by the designated local office of the State Treasury (KPPN) at the request of the State Treasurer or his designated officers to pay directly to a certain party by submitting a withdrawal application to the lender and/or donor.

A Special Account is an account that is opened by the Minister of Finance with Bank Indonesia or a bank designated to temporarily accommodate funds from specific foreign loans or grants in the form of initial deposits to cover financing needs for a certain period. An initial deposit is one that is placed in the special account by the foreign lender or donor at the request of the Minister of Finance or his delegated officers, the amount of which deposit will be as set out in the On-Lending Agreement. After the initial funds are used, the special account is replenished upon the submission of a request to the foreign lender or donor.

A Reimbursement is a payment made by the foreign lender or donor for the purpose of reimbursing funds that have been spent on particular activities through the State Treasury and/or State Cash Account, or an On-Lending Account where the beneficiary is to be a Local Government or Government Business Enterprise.

In this Technical Bulletin, we shall discuss the accounting treatment of external loans based on the above 4 mechanisms as the particular mechanism used will determine the time/date of the loan disbursement by lender as a cut-off for the recording of the loan in the financial statements.

Recognition

In accordance with paragraph 21 of Government Accounting Standards No. 9, "liabilities are recognized when the debt funds are received and/or when the liabilities occur". Nevertheless, because of the different mechanisms employed in drawing down foreign loans, the recognition of a liability in the form of foreign loans will also vary, as described below:

1. External loans that are drawn down by way of an L/C are recognized at the time the lender makes disbursement to the correspondent bank for payment of the L/C. Realization of disbursement is notified by the lender to the borrower through a Notice of Disbursement (NOD).

2. In the case of external loans that are drawn down by way of direct payment, such loans are recognized at the time the lender makes disbursement to the third party. Realization of disbursement is notified by the lender to the borrower through a Notice of Disbursement (NOD).

3. In the case of external loans that are drawn down by way of a special account, these are recognized at the

time the lender makes disbursement to the special account in question. As the fund in the special account are the property of the borrower, the payment of funds into the account is notified by the lender to the borrower through a Notice of Disbursement (NOD), and is subsequently recognized by the borrower as a debt.

4. External loans that are drawn down through the reimbursement mechanism are recognized at the time the lender disburses the funds into the State Treasury and/or State Cash Accounts, or the On-Lending Account for the purpose of reimbursing expenditure that has already been undertaken. Realization of disbursement is notified by the lender to the borrower through a Notice of Disbursement (NOD).

Measurement

According to paragraph 32 of Government Accounting Standards No. 09, "liabilities are recorded at their nominal value." Loans denominated in foreign currencies are stated in rupiah terms based on the Bank Indonesia median rate as per the date of the Balance Sheet. The nominal value of a debt reflects the amount of the debt at the time when the first transaction took place, such as the amount stated on a government debt certificate. Subsequent economic events, such as payments, changes in value due to exchange-rate fluctuations, and other changes, apart from changes in market value, are accounted for by adjusting the recorded amount of the debt.

Presentation and Disclosure

Indebted loans are presented in the Balance Sheet based on the carrying amount. The said carrying amount is the book value of the debt, which is calculated based on the nominal amount after the deduction or addition of any unamortized discounts or premiums.

The disclosure to the Balance Sheet accounts consists of details of each loan (if such explanations require more than one page, then it is better to insert them in an appendix), maturities, interest rates, amortization of discounts/premiums, and exchange rate difference between the transaction exchange rate and the rate prevailing as per the date of the Balance Sheet.

In connection with external loans, Short-Term Liabilities includes commitment fees, interest, Current Portion of Long-Term Liabilities and Long-Term Liabilities that have been converted into Short-Term Liabilities.

Sample External Loan Transactions:

During a bilateral meeting between the Government of Indonesia and the ADB in July 2004, it was agreed that the ADB would extend a loan to Indonesia worth $100 million for power network upgrades, capacity-building in the civil service, etc. It was agreed that the funds could be drawn down 3 months subsequent to the date of signature of the loan agreement, and that the loan would mature in 10 years counting from the draw-down date. The final loan agreement documents were signed by the parties on 20 and 30 June 2005, under which it was agreed that:

a. The funds would be available as per the effective date commencing 1 October 2005.

b. The funds not drawn down would be subject to a commitment fee of 0.25% per year;

c. That interest would be charged at 8% p.a., payable every 6 months;

d. There would be a grace period of 5 years;

e. On 25 October 2005, the government submitted a withdrawal application for $2 million to be transferred into a Special Account established by the government to fund overseas training for civil servants. The money was transferred by the ADB on 1 November 2005, and entered the Special Account on 2 November 2005. In the Notice of Disbursement, which was received on 15 November 2005, it was stated that the transfer of $2 million had been effected on 1 November 2005.

f. the Central Bank median rate was:

- 9,000/US $1 per 1 November 2005
- 8,950/US $1 per 2 November 2005
- 9,200/US $1 per 31 December 2005

The journal entries recording the above transaction are as illustrated below:

SAUP (Debt Manager Accounting system)

15 November 2005

Account Code	Description	Debit	Credit
XXXX	Debt Payable to State Treasury (p.m.)	18,000,000,000	
XXXX	Financing Receipt		18,000,000,000

Note: to record realization of financing receipt

Corollary journal entry recording debt:

Account Code	Description	Debit	Credit
XXXX	Fund Equity: Long-Term Provisions	18,000,000,000	
XXXX	External Debt Payable (Starting Nov.1, 2005)		18,000,000,000

SAKUN (Treasury Accounting system)

2 November 2005 (in accordance with date of Credit Note from Bank Indonesia)

Account Code	Description	Debit	Credit
XXXX	Cash	18,000,000,000	
XXXX	Financing Receipt (p.m.)		18,000,000,000

Note: to record realization of financing receipt

Note: When recording the US$2,000,000 in rupiah terms, the following steps are involved:

1. The debt manager records the debt based on the Notice of disbursement, meaning that the loan starts to run from 1 November 2005.

2. The State Treasury records receipt of the financing in accordance with the Credit Note received from Bank Indonesia.

3. The recording of the debt in rupiah on a corollary basis by the debt manager or the State Treasury is based on the Bank Indonesia median rate as per 1 November 2005, that is, the date of transfer of the USD funds into the State Treasury.

4. The account coded (p.m.) is a memorial account that is excluded when preparing the government's consolidated financial statements.

The journal entry recording Accrued Interest as per 31 December 2005 will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Short-Term Provisions	245,333,364	
XXXX	Accrued Interest		245,333,364

Note: Interest payable is recorded as 2/12 x 8/100 x US$2,000,000 = $26,666.67, and is converted into rupiah as 26,666.67 x Rp 9200 = Rp 245,333,364.

The journal entry recording the commitment fee liability as per 31 December 2005 will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Fund Equity - Short-Term Provision for Commitment Fee	567,333,364	
XXXX	Short-Term Liabilities		567,333,364

The calculation of the commitment fee as per 31 December 2005 is as follows:

- October 2005

1/12 x 0.25/100 x US$100,000,000 = $20,833.33

November and December 2005

2/12 x 0.25/100 x US$98,000,000 = $40,833.33

Total $61,666.67

At median exchange rate of Rp 9,200 = Rp 567,333,364

The journal entry per 31 December 2005 recording an increase in the value of the external loan due to exchange rate fluctuations is as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Long-Term Provisions	400,000,000	
XXXX	External Debt Payable		400,000,000

Note:

- Value of the debt per 31/12/2005 (USD 2,000,000 x Rp 9,200) = Rp 18,400,000,000
- Value of the debt per 1/11/2005 (USD 2,000,000 x Rp 9,000) = Rp 18,000,000,000
- Increase in the rupiah amount of the debt due to foreign exchange fluctuations = Rp 400,000,000

B. Domestic Liabilities – Banking Sector

Domestic Liabilities – Banking Sector consists of Long-Term Liabilities related to the banking sector that are expected to be paid more than 12 months after the date of the Balance Sheet. Under article 8 of Government Regulation No. 54 of 2005 on Local Government Borrowing, Local Government are permitted to take out long-term loans from banks that are incorporated and domiciled within the territory of the Republic of Indonesia.

Various costs must be incurred in relation to loans from the domestic banking sector, such as loan administration costs (notarial fees, insurance premiums), interest and penalties, and commitment fees. Such expenses that are owed and which have yet to be paid are categorized as Short-Term Liabilities.

Recognition

Save where otherwise provided in the loan agreement, domestic banking sector debts are recognized at the time the funds are received in the Local Government Treasury.

Measurement

The amount of debt as stated on the loan agreement represents the maximum funding commitment extended by the lender. The borrower may not have drawn down all of the funds so that the amount stated on the Balance Sheet for domestic bank debts is the amount that has actually been drawn down by the borrower.

Subsequently, the repayment of loan principal will reduce the amount of the debt so that the amount stated on the Balance Sheet will represent total draw-downs less repayments of principal.

Presentation and Disclosure

Bank debts are presented as Long-Term Liabilities, with the details of bank debts are described by lender in the Notes to the Financial Statements.

The journal entry recording Domestic Liabilities – Banking Sector at the time the funds are received, and the corollary journal entry recording the debt concerned, are as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Cash	XXX	
XXXX	Financing Receipt		XXX
XXXX	Fund Equity – Long Term Provisions	XXX	
XXXX	Domestic Liabilities – Banking Sector		XXX

Example:

In 2006, the government of Misal District secured a loan from the domestic banking sector worth Rp 5,000,000,000. The loan was to be repaid by installment over 5 years.

The journal entry recording receipt of the financing from the domestic banking sector will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Cash	5,000,000,000	
XXXX	Financing Receipt		5,000,000,000

The corollary journal entry recording the liability will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Fund Equity – Long Term Provisions	5,000,000,000	
XXXX	Domestic Debt Payable – Banking Sector		5,000,000,000

C. Bond Debts Payable

Definition

A sovereign bond is a type of government security that has a maturity of more than 12 months and which carries a fixed (FR)or variable rate (VR) of interest. In line with the government’s financing needs, government bonds can be denominated in rupiah or other currencies.

A government security is an acknowledgement of debt on the part of the government that is denominated in rupiah or foreign currency, and in respect of which repayment of principal and interest is guaranteed by the Republic of Indonesia based on the stipulated term.

Local Government Bonds consist of local government debt offerings to the public through the capital markets.

The general characteristics of a bond that have a direct bearing on its accounting treatment include:

- The currency in which it is denominated;
- The par, or nominal value, or the value on maturity;
- The amount of interest to be charged, whether it is fixed or variable, and the dates on which interest must be paid;
- The term of the debt, including the date on which it starts and the date on which it ends;

- The way in which the bond can be redeemed (on a lump-sum or installment basis), and the possibility of the bond being redeemed prior to the maturity date;
- The Bond registration, whether it belongs to the registered name or to bearer;
- Premium or discount that arises on the sale of a bond due to the difference between the market price and the par price.

Government bonds may be denominated in rupiah or in foreign currencies. In general, bonds that are sold on the domestic market are denominated in rupiah, while those that are sold overseas are denominated in other currencies. The principal investors in the bond market are generally financial institutions such as investment banks, insurance firms, pension funds and mutual funds (particularly fixed income funds).

The nominal or par value of bonds that are sold to corporate customers is generally stated in round figures, such as Rp 1 billion per bond. For retail customers, the par value is normally set lower, such as Rp 1 million per bond, as in the case of Republic of Indonesia Retail Bonds (ORI).

Besides stating the par value, each bond certificate will also give information on the interest rate – whether it is fixed (FR) or variable (VR). Should the rate be variable, the parameters that govern the rate will also be stated, such as the rate will be charged at 50 basis points above the SBI (Bank Indonesia Certificate) 3-month interest rate. The interest on bonds starts accruing from the effective date of the bond to the date of payment, and is usually stated in periods of 6 months. The bond purchaser pays the purchase price as well as the accrued interest starting the effective date or the latest interest payment.

Bonds normally have medium-term maturities, such as 5 years, or long-term maturities, such as between 10 and 20 years. If desired, a bond certificate may also state whether the bond can be redeemed prior to the maturity date.

Bonds may be registered bonds, meaning that the name of the buyer is stated on each of his bond certificates, or bearer bonds, which means that whoever is in procession of the bond is deemed to be its owner, and thus the owner of the bond principal and accrued interest thereon.

The pricing mechanism for the sale of bonds depends greatly on the difference between the interest rate stated on the bond certificate (Ir) and the expectations about market interest rates (Im).

- Should (Ir) be higher than (Im), the bond will tend to command a premium, meaning that it market value will be higher than its par value.
- Should (Ir) be lower than (Im), the bond will tend to trade at a discount, meaning that its market value will be less than its par value.

In order to ensure that the market price of bonds remains at around par value, issuers set variable interest rates or interest rates that are pegged higher than specified benchmarks.

Recognition

Central/Local Government bonds are recognized at the time when the debt arises, that is, at the time the bonds are sold.

Meanwhile, interest on bonds is recognized at the time of issuance of the bonds, or from the time of the last payment made in respect of the bond, up until the time of the transaction.

Measurement

Central/Local Government bonds are recorded at nominal or par value, plus premiums and less discounts, which are presented in separate accounts. The nominal value of a Central/Local Government bond reflects that amount stated on the bond certificate and represents the amount that will be paid by the government upon maturity of the bond. Should the bond be redeemed on an installment basis, subsequent economic events after payment, and other changes, excepts changes in market value, are accounted for by adjusting the carrying amount of the debt. Should the bond be sold below par (at a discount) or above par (at a premium), the principal value of the bond will be the face value or redemption value, while discounts and premiums are capitalized and amortized during the lifetime of the bond.

Should a bond issue be denominated in foreign currency, it will be stated in rupiah terms based on the Bank Indonesia median rate as per the date of the Balance Sheet.

Presentation and Disclosure

Central/Local Government bond debts are presented on the Balance Sheet in the Long-Term Liabilities group of accounts based on the carrying amount, which is the debt principal plus premiums or minus discounts that have yet to be amortized.

The matters that need to be disclosed in respect of the Balance Sheet accounts include the details of each type of debt denominated in each currency, maturities, interest rates and types of interest rate, registration of each type of bond, and the amortization of discounts and premiums.

The journal entries recording Bond Debts Payable at the time the proceeds are received will be as illustrated below:

- Journal entry recording receipt of financing

Account Code	Description	Debit	Credit
XXXX	Cash	XXX	
XXXX	Financing Receipt – Domestic Bonds		XXX

The corollary journal entry to record the recognition of the bond debt will be as follows:

Account Code	Description	Debit	Credit
XXXX	Fund Equity – Long-Term Provisions	XXX	
XXXX	Bond Debts Payable		XXX

The journal entries recording the redemption of a bond will be as illustrated below:

- Journal entry recording Financing Expenditure:

Account Code	Description	Debit	Credit
XXXX	Financing Expenditure – Redemption of Bond Principal	XXX	
XXXX	Cash		XXX

- Corollary journal entry to record redemption of bond:

Account Code	Description	Debit	Credit
XXXX	Bond debt Payble	XXX	
XXXX	Fund Equity – Long-Term Provisions		XXX

Example 1: Bond Issue by Local Government on Domestic Market.

The Local Government issued 1000 bonds at Rp 1 billion per bond and an interest rate of 12% p.a., payable every 6 months as per 1 March and 1 September. The effective date of the bonds was 1 March 2008 and the redemption date 28 February 2013. The entire bond offering was sold on 1 April

2008, resulting in Rp 1,030 billion of debt principal and Rp 10 billion in current interest.

Sale of Bonds

At the time the funds were received on 1 April 2008, the Local Government Treasurer will make the following journal entry (figures are in million rupiah):

Account Code	Description	Debit	Credit
XXXX	Cash	1,040,000	
XXXX	R/C with Bond Manager		10,000
XXXX	R/C with Bond Manager		1,030,000

The unit managing the bond debt will record the bond sales per 1 April 2008 in the Balance Sheet account as follows:

Journal Entry recording Budget Realization:

Account Code	Description	Debit	Credit
XXXX	R/C with Local Government Treasurer	1,040,000	
XXXX	Interest Expenses		10,000
XXXX	Financing Receipt		1,030,000

The corollary journal entry to record the transaction in the Balance Sheet account:

Account Code	Description	Debit	Credit
XXXX	Fund Equity – Long-Term Provisions	1,030,000	
XXXX	Premium on Sale of Bonds		30,000
XXXX	Bond Debt Payable (in Rupiah Denomination)		1,000,000

The journal entries to record the interest on the bonds as per 1 September 2008 will be as illustrated below:

The Local Government Treasurer records the interest payment as follows:

Account Code	Description	Debit	Credit
XXXX	R/C with Bond Manager	60,000	
XXXX	Cash		60,000

The Bond Manager records the interest payment as follows:

Account Code	Description	Debit	Credit
XXXX	Bond Interest Expenses	60,000	
XXXX	R/C with Local Government Treasurer		60,000

Closing journal entries at end 2008

The closing journal entries for each unit recording the interest that arose over the 4 month period are as follows:

Account Code	Description	Debit	Credit
XXXX	Current Fund Equity	40,000	
XXXX	Bond Interest Liabilities		40,000

The closing journal entries for each unit recording the amortization of the premium (over 10 months) will be as follows:

Account Code	Description	Debit	Credit
XXXX	Premium –Bond Sales	5,000	
XXXX	Fund Equity – Long-Term Provisions		5,000

Journal entries recording redemption of bonds per 28 February 2013

At the time of redemption, the Local Government Treasurer will make the following journal entry:

Account Code	Description	Debit	Credit
XXXX	R/C with Bond Manager	1,000,000	
XXXX	Cash		1,000,000

The unit responsible for managing the bond debt will record the redemption of the bonds in the following way:

Account Code	Description	Debit	Credit
XXXX	Financing Expenditure for Redemption of Bonds	1,000,000	
XXXX	R/C with Local Government Treasurer		1,000,000

The corollary journal to record the transaction in the Balance Sheet account will be as follows:

Account Code	Description	Debit	Credit
XXXX	Rupiah-Denominated Bond Debts	1,000,000	
XXXX	Fund Equity – Long-Term Provisions		1,000,000

Example 2: Bond issued by Central Government on overseas market

On 1 January 2010, the Central Government issued a Samurai Bond to be sold on the Japanese money market. In order to ensure market interest, both the bond principal and interest payable was underwritten by the JBIC, which guaranteed 95% of total present value cash flow, while the remaining 5% was not guaranteed. The government covered this by using some of the bond proceeds to establish a trust fund in Japan for approximately 2 years. The funds placed in the trust fund would be used to pay the interest on the Samurai Bond over the first two years.

The bond issue was worth Rp 10 trillion and was due to mature in 10 years. The bonds carried a coupon of 10% per annum, payable every 6 months on 1 January and 1 July.

1. Journal Entries at the date of sale (1 January 2010) in million rupiah.

SAKUN

Account Code	Description	Debit	Credit
XXXX	Cash	10,000,000	
XXXX	Financing Receipt – Bond Sales (p.m.)		10,000,000

SAUP

Account Code	Description	Debit	Credit
XXXX	Debt Payable to State Treasury (p.m.)	10,000,000	
XXXX	Financing Receipt – Bond Sales		10,000,000

Corollary Journal

Account Code	Description	Debit	Credit
XXXX	Fund Equity – Long-Term Provisions	10,000,000	
XXXX	Bond Debts Denominated in Foreign Currency		10,000,000

2. Journal entries at time of setting up reserve fund to pay coupon over two years

SAKUN

Account Code	Description	Debit	Credit
XXXX	Interest Expenses (p.m.)	2,000,000	
XXXX	Cash		2,000,000

SAUP

Account Code	Description	Debit	Credit
XXXX	Interest Expenses	10,000,000	
XXXX	Financing Receipts – Bond Sales		10,000,000

Corollary Journal

Account Code	Description	Debit	Credit
XXXX	Fund Equity – Long-Term Provisions	10,000,000	
XXXX	Foreign Currency Denominated Bond Liabilities		10,000,000

2. Journal Entries at time of setting up reserve fund to pay coupon over 2 years

SAKUN

Account Code	Description	Debit	Credit
XXXX	Interest Expenses (p.m.)	2,000,000	
XXXX	Cash		2,000,000

SAUP

Account Code	Description	Debit	Credit
XXXX	Interest Expenses	2,000,000	
XXXX	Receivable from State Treasury (p.m.)		2,000,000

Corollary Journal Entry

Account Code	Description	Debit	Credit
XXXX	Prepaid Interest Expenses	2,000,000	
XXXX	Receivables Provision		2,000,000

3. Journal Entries at time of payment of interest for first and second years by trust fund

SAKUN

No journal entry is made as no cash outlays are involved.

SAUP

1 July 2010 and 1 July 2011

Account Code	Description	Debit	Credit

XXXX	Receivables Provision	500,000	
XXXX	Prepaid Interest Expenses		500,000

31 December 2010 and 31 December 2011

Account Code	Description	Debit	Credit
XXXX	Receivables Provision	500,000	
XXXX	Prepaid Interest Expenses		500,000

4. Journal entries at time of payment of interest starting third year (1 July 2012)

SAKUN

Account Code	Description	Debit	Credit
XXXX	Interest Expense (p.m.)	500,000	
XXXX	Cash		500,000

SAUP

Account Code	Description	Debit	Credit
XXXX	Interest Expenses	500,000	
XXXX	Receivable from State		

	Treasury (p.m.)		500,000

5. Journal entries recognizing accrued interest per 31 December 2012

SAKUN

There is no journal as no cash outlays are involved.

SAUP

Account Code	Description	Debit	Credit
XXXX	Long-Term Provisions	500,000	
XXXX	Bond Interest Liabilities		500,000

6. Journal entries at time of payment of interest per 1 January 2013

SAKUN

Account Code	Description	Debit	Credit
XXXX	Interest Expenses (p.m.)	500,000	
XXXX	Cash		500,000

SAUP

Account Code	Description	Debit	Credit
XXXX	Interest expenses	500,000	
XXXX	Receivable from State Treasury (p.m.)		500,000

The corollary journal entry eliminating interest liabilities from the previous year that were paid on 1 January 2013 will appear as follows:

Account Code	Description	Debit	Credit
XXXX	Bond Interest Liabilities	500,000	
XXXX	Short-Term Provisions		500,000

7. Journal Entries at time of Redemption (1 January 2020)

SAKUN

Account Code	Description	Debit	Credit
XXXX	Financing Expenditure(p.m.)	10,000,000	
XXXX	Cash		10,000,000

SAUP

Account Code	Description	Debit	Credit

XXXX	Financing Expenditure	10,000,000	
XXXX	Receivable from State Treasury (p.m.)		10,000,000

Corollary journal entry:

Account Code	Description	Debit	Credit
XXXX	Bond Liabilities Denominated in Foreign Currency	10,000,000	
XXXX	Fund Equity – Long-Term Provisions		10,000,000

Note:

The account coded (p.m.) is a memorial account that is excluded when preparing the government's consolidated financial statements.

D. Installment Purchase Liabilities

Installment Purchase Liabilities arise as a result of the acquisition of goods/services by government on an installment basis.

A particular ministry sometimes may not be able financially to afford an expensive piece of infrastructure. Every State Ministry/Institution and Local Government needs land and offices for its operations, for example. The Ministry of Foreign Affairs, for instance, requires premium official vehicles for Indonesian diplomatic missions overseas so as to maintain the country's image and prestige. In many cases, such procurements will not be capable of being paid in full within the period of one year. In order to overcome this, they may be purchased on an installment basis.

Legally speaking, such transactions are characterized by the signing of an acknowledgement of indebtedness or hypothec agreement by the purchaser, which sets out the specific terms and conditions of payment and discharge.

Installment purchases have two principal variants – first, an agreement setting out the number of installments to be made based upon a fixed interest rate, and, second, an agreement the sets out a periodic installment payment schedule, with the amounts to be paid in each installment consisting of the principal and interest thereon, the amount of which is not explicitly stated. The principal similarity between the two types of agreement is that interest is charged on the outstanding principal that has yet to be repaid.

Credit purchases by government over a period that exceeds one fiscal year are more complicated that cash purchases as they give rise to issues related to budget spending regulations, and at the same time will be subject to either explicit or hidden interest charges. We shall now discuss in more detail the various issues that arise in relation to credit purchases;

In order for a purchase on credit that exceeds one fiscal year to be permitted, the following requirements and assumptions must be applicable:

1. Every State Ministry/Institution or Local Government that proposes to purchase goods/services based on a credit agreement that extends beyond more than one fiscal year must first seek a dispensation from the Minister of Finance. Such dispensation must clearly state the amount of the debt and the interest payable thereon, the number of installments that must be paid, and the date of the final installment. With regard to payment amounts and the payment schedule, the dispensation must also clearly state that guaranteed budgetary appropriations will be made to cover repayment of the debt over its lifetime.

2. Based on the said dispensation, the debt must be recorded as multiyear financing transferred to the

State Ministry/Institution or Local Government that was given the dispensation.

3. Based on the Minister of Finance’s dispensation, the State Ministry/Institution or Local Government concerned shall allocate budgetary funding every year to cover that portion of the debt principal classified as a Short-Term Liability, and the interest arising thereon, that will become payable during the next fiscal year.

4. The repayment of the debt principal and payment of interest during one fiscal year is effected by debiting the expenditure budget of the State Ministry/Institution or Local Government concerned.

1. Installment Purchase Agreement with Fixed Interest Rate on Outstanding Debt Principal

Example of a Installment purchase that exceeds one fiscal year:

The Ministry of Foreign Affairs purchased land for the construction of an embassy on 2 January 2008 at a cost of Euro 10,000,000. The down payment of Euro 3,500,000 was appropriated in the fiscal 2008 DIPA, with the remainder, according to the purchase agreement, to be paid by installments of Euro 500,000, payable at the end of each semester and subject to an interest rate of 10%.

The transaction may be summarized as follows:

2 January 2008

Price of the land	€10,000,000
Down Payment	3,500,000
Installments Debt Payble	6,500,000

30 June 2008

Payment of first installment	€ 500,000
Interest on outstanding principal	325,000*)

*) 6,500,000 x 10%/2 = 325,000

31 December 2008

Payment of second installment	500,000
Interest on outstanding principal	300,000*)

*) (6,500,000 – 500,000) x 10%/2 = 300,000

And so on until the entire principal has been paid.

2. Installment Purchase Agreement with Disguised interest

A purchase by installment where the interest is hidden or disguised is one where the principal is repaid in installments that are calculated on an annuity basis, that is, installments, which include the principal and interest, are paid as a lump sum. An example of such an arrangement is as follows:

The Ministry of Foreign Affairs purchased land for the construction of a new embassy on 2 January 2008 at a cost of Euro 50,000,000. The down payment, which amount to Euro 15,000,000, was appropriated in a fiscal 2008 DIPA. The remaining principal, under the contract, was to be paid in installments of Euro 7,189,000 at the end of every year over the course of 7 years. No interest was charged specifically. As the payment terms required payments to be made in fixed amounts over regular intervals, they were to be paid on an annuity basis.

Although no explicit interest was made in the agreement, the payment of annual annuities of Euro 7,189,000 each year in fact means that interest is effectively being charged, with the rate being equivalent to interest rate used to discount the annual installments of Euro 7,189,000 paid over 7 years.

The interest rate is calculated using the following formula:

$$PVn = R(PVAF\ n\rceil i)$$
$$€50{,}000{,}000 - €15{,}000{,}000 = €7{,}189{,}000\ (PVAF\ n\rceil i)$$
$$(PVAF\ n\rceil i) = €35{,}000{,}000/€7{,}189{,}000$$
$$= 4{,}8685$$

Based on annuity tables, the interest rate on present value of 4,8685 when n = 7 is 10%.

Using the annuity interest rate of 10%, the present value of the 7 fixed annual installments of Euro 7,189,000 (or a total of Euro 50,323,000) amounts to 35,000,000.

Based on the above calculations, the transaction may be summarized as follows:

2 January 2008

Acquisition value of land			€ 50,000,000
Down payment			15,000,000
Annual annuities	50,323,000		
Hidden interest	15,323,000		
Debt principal		35,000,000	

31 December 2008

First annuity payment	€ 7,198,000
Interest on outstanding principal	3,500,000*)

*) (50,323,000 – 15,323,000) x 10% = 3,500,000

31 December 2009

Second annuity payment	7,198,000
Interest on outstanding principal	3,130,200*)

*) (50,323,000 – 7,198,000)= €43,125,000

(15,323,000 – 3,500,000)= €11,823,000

€31,302,000 x 10%= €3,130,200

And so forth until the entire principal has been paid.

3. Accounting for Installment Purchase Liabilities

Government Accounting Standard No. 9 defines liabilities as present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources.

a. Recognition

Whether a Installment purchase carries an explicit interest rate or is subject to hidden interest, the debt is recognized when the asset that is purchased has been transferred to the purchaser and the credit agreement has legally entered into effect, that is, when the agreement is signed by the vendor (and creditor) and the purchaser (and borrower).

b. Measurement

Whether an Installment purchase carries an explicit interest rate or is subject to hidden interest, it will be recorded at nominal value.

In the particular case of Installment purchases that are payable by annuities, each payment must be separated into the principal and interest components.

Liabilities denominated in foreign currencies are stated in rupiah terms based on the Bank Indonesia median rate as per the date of the Balance Sheet.

C. Presentation and Disclosure

Installment purchase liabilities are presented on the Balance Sheet in the Long-Term Liabilities account based on the carrying amount.

The information that need to be disclosed in the Notes to the Financial Statements include the details of each type of Installment purchase, the payment dates of each installment, and the rate of interest, whether explicit or hidden.

Should disguised interest be incorporated in annuities, the amount of interest needs to be disclosed. Referring to the earlier example, the schedule of annuity payments will be disclosed as follows:

Summary of Annuity Payments for Purchase of Land

Date	Cash Value	Down Payment/Annuity Installments	Principal Installments	Interest	Outstanding Debt
2 Jan 08	50.000.000	15.000.000			35.000.000,00
31-12-08		7.198.000	3.698.000,00	3.500.000,00	31.302.000,00
31-12-09		7.198.000	4.067.800,00	3.130.200,00	27.234.200,00
31-12-10		7.198.000	4.474.580,00	2.723.420,00	22.759.620,00
31-12-11		7.198.000	4.922.038,00	2.275.962,00	17.837.582,00
31-12-12		7.198.000	5.414.241,80	1.783.758,20	12.423.340,20
31-12-13		7.198.000	5.955.655,98	1.242.334,02	6.467.674,22
31-12-14		7.198.000	6.467.674,22	730.325,78	0.00
		65.386.000	35.000.000,00	15.386.000,00	

*) Interest per 31 December 2014 is rounded up so as to produce a zero principal balance.

The journal entries to record the above purchase of land by installment will be as illustrated below:

Recording the Payment by Installment:

Account Code	Description	Debit	Credit
XXXX	Fixed Assets	50,000,000	
XXXX	Fund Equity - Fixed Assets Disposal		50,000,000

Recording down payment/first installment:

Account Code	Description	Debit	Credit
XXXX	Capital Expenditure	15,000,000	
XXXX	Receivable from State Treasury		15,000,000

Recording outstanding principal:

Account Code	Description	Debit	Credit
XXXX	Fund Equity - Long-Term Provisions	35,000,000	
XXXX	Installment Purchase Liabilities		35,000,000

Recording payment of annuity per 31 December 2008

Account Code	Description	Debit	Credit
XXXX	Capital Expenditure	3,698,000	
XXXX	Interest Expenditure	3,500,000	
XXXX	Receivable from State Treasury		7,198,000

The payment of annuities (principal and interest) continues until 2013, as shown in the above table.

E. Other Long-Term Liabilities

Other Long-Term Liabilities consists of Long-Term Liabilities that do not come within the definition of Domestic Liabilities – Banking Sector, Domestic Bond Liabilities, External Liabilities; example of this is Third Party Partnership Liabilities. Third Party Partnership Liabilities consists of liabilities that arise from partnerships with third parties that are entered into by the government, such as Build, Transfer, Operate (BTO) agreements. 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. Third Party Partnership Liabilities arise when payments are made by the government to the third party, whether on an installment or profit-sharing basis, for the unpaid portion of the amount expended by the investor on developing the asset. Should payment be made by way of profit-sharing, Third Party Partnership Liabilities will be presented as the amount expending by the investor after the deduction of the amounts paid by government under the profit-sharing arrangement.

Recognition

Recognition of Third Party Partnership Liabilities is effected at the time the asset is handed over by the third party to the government to be subsequently paid for in accordance with the partnership agreement.

Measurement

Third Party Partnership Liabilities are measured based on the amounts that have yet to be paid having regard to the partnership contract.

Presentation and Disclosure

Third Party Partnership Liabilities are presented on the Balance Sheet in the Long-Term Liabilities account. The details of each partnership agreement need to be disclosed in the Notes to the Financial Statements.

The journal entry recording Third Party Partnership Liabilities will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Buildings and Properties	XXX	
XXXX	Fund Equity - Fixed Assets Disposal		XXX

The journal entry recording Other Long-Term Liabilities will be as illustrated below:

Account Code	Description	Debit	Credit
XXXX	Fund Equity - Long-Term loan Provisions	XXX	
XXXX	Other Long-Term Liabilities		XXX

Example:

- For the purpose of improving public services, the government, on 12 February 2005, entered into a Build, Transfer, Operate agreement with PT Ranggataksaka for the construction of a hospital based on a profit-sharing arrangement. PT Ranggataksaka invested Rp 5,000,000,000 in the project, while the land supplied by the government was valued at Rp 1,000,000,000. The BTO project was completed on time and duly transferred to the government in 2007.

In this case, the journal entries at the time of the handing over of the asset will be as follows:

- Record in Buildings and Properties on the Balance Sheet

Account Code	Description	Debit (Rp 000)	Credit (Rp 000)
XXXX	Buildings and Properties	5,000,000	
XXXX	Fund Equity - Fixed Assets Disposal		5,000,000

To Record Third Party Partnership Liabilities on Balance Sheet

Account Code	Description	Debit (Rp 000)	Credit (Rp 000)
XXXX	Fund Equity - Long-Term Provisions	5,000,000	
XXXX	Other Long-Term Liabilities		5,000,000

CHAPTER IV TRANSFER LIABILITIES

A. Introduction

The government of the Republic of Indonesia administers the state and promotes national development so as to bring about a just, prosperous and equitable society based on Pancasila and the 1945 Constitution of the Republic. As regards the administration of government, the Republic of Indonesia is divided into provinces, with each province consisting of districts and municipalities. In order to improve the efficiency and effectiveness of government and the provision of public services, each region is vested with specific rights and obligations in particular areas of government.

Article 18A(2) of the 1945 Constitution provides that financial relations, public services, and the benefits arising from the exploitation of natural and other resources shall be arranged and managed in a just and equitable manner as between the Central and Local Governments in line with the fiscal balance legislation so as to support the financing of the governmental responsibilities delegated to regional governments by the local government legislation. The allocation of such funding is based on the principle of “money follows function,” which means that the funding is provided in line with the government functions that are the responsibility of each level in the Local Government hierarchy.

Financial balance between the Central Government and Local Government means the allocation of financial resources as between the Central Government and Local Governments in a proportional, democratic, just and transparent manner having regard to the potential, condition and needs of each Local Government.

As part of local autonomy, the delegation and assignment of government powers to Local Governments must be accompanied by clear rules governing the distribution and sharing of national resources in an equitable manner, including a proper financial balance as between the Central Government and Local Governments. As autonomous regions, Local Governments are required to exercise their functions based on the principles of transparency, participation and accountability.

Fiscal Balance Transfers consist of Local Government funds that are appropriated in the national budget, and are made up of Revenue Sharing Transfers (DBH), General Transfers (DAU) and Special Transfers (DAK). Besides being intended to financially assist Local Governments in carrying out their responsibilities, Fiscal Balance Transfers are also designed to reduce disparities in financial resources as between the Central Government and Local Governments, as well as disparities between different Local Government regions. The three components of Fiscal Balance Transfers make up a unified system of intergovernmental transfers.

Fiscal Balance Transfers are intended to create financial balance as between the Central Government and Local Governments. Article 1 of Government Regulation No. 55 of 2005 on Fiscal Balance Transfers provides that Fiscal Balance Transfers consist of funds appropriated in the National Budget and which are allocated to Local Governments to finance local needs in the context of decentralization. Article 2 of this Regulation (PP 55/2005) then states the Fiscal Balance Transfers consist of Revenue- Sharing Transfers (DBH), General Transfers (DAU) and Special Transfers (DAK). Fiscal Balance Transfers constitute a source of financing for Local Governments in discharging their responsibilities under decentralization, and the allocations of the different types of transfer cannot be separated one from the other bearing in mind that the objectives of each type of transfer are mutually complementary.

The specific procedures for making and accounting for transfers to Local Governments are set out in Minister of Finance Regulation No. 04, as amended by Minister of Finance Regulation No. 21/PMK.07/2009 on the procedures for making and accounting for budgetary transfers to the regions. This Minister of Finance Regulation provides that transfers to Local Governments consist of funds appropriated in the National Budget in the context of decentralization, and are made up of Fiscal Balance Transfers, Special Autonomy Transfers and Adjustment Transfers.

Paragraph 8 of Government Accounting Standard No. 02 (on the Budget Realization Statement) defines a transfer as a "receipt or disbursement of cash from a reporting entity to or from another reporting entity, including fiscal balance funds and revenue sharing funds." By Fiscal Balance Transfers is meant Fiscal Balance Transfers under Act No 33 of 2004, which consist of Revenue- Sharing Transfers (DBH), General Transfers (DAU) and Special Transfers (BAK). Meanwhile, Revenue-Sharing Transfers, as referred to in paragraph 8, are transfers of revenues made by provincial governments to district/municipal governments within their jurisdictions, and transfers of revenues made by district/municipal governments to villages within their jurisdictions. Paragraph 40 provides that a Transfer-Out is a disbursement of funds from one reporting entity to another, such as the disbursement of fiscal balance funds by the central government, and revenue-sharing funds by local governments.

In 2008, the Central Government made improvements to the implementation of fiscal decentralization for the purpose of supporting local autonomy. These changes took the form of a shift from the old paradigm to a new paradigm, which entered into effect in January 2008. As part of these changes:

- The term "Expenditure on Regions" was changed to "Transfers to Regions" in the 2008 National Budget;
- The functions of Local Government Treasurers as regards transfers to the regions were taking over by the Director General of Fiscal Balance.
- The powers of 467 provincial/district and municipal governments to issue Transfer Payment Orders were

removed and transferred to the Director General of Fiscal Balance; and

- The power to issue Transfer Payment Orders previously vested in the local offices of the State Treasury (KPPN) were transferred to the Minister of Finance c.q. the Director General of the Treasury.

The most significant aspects of the changes that took place are as follows:

1. The management of vesting of fiscal transfers in the Minister of Finance which is delegated to the Director General of Fiscal Balance;

2. The making of a distinction between transfers and expenditure. Under the new system, a transfer is limited to moving funds from the State Treasury to Local Government Treasuries, so that there is no need to demonstrate equivalent performance in respect of the funds that are transferred.

3. Greater accountability in reporting so as to ensure that the treatment of transfers in the Budget Realization Statement is more efficient through the availability of source documents in the Budget Officer as a reporting entity.

4. greater legal compliance as the new system allows the provisions of Act No. 17 of 2003 to be implemented. This Act provides that the management of local finances by the President shall be delegated to the governors/district heads/mayors as the Local Government Chief Executives.

5. Greater efficiency in financial management so as to ensure the effective use of documents, manpower, budgets and time in making transfers from the Central Government to Local Governments.

The changes in nomenclature that have taken place mean that Local Governments no longer need to submit requests or proposals for transfers as the Government and the House of Representatives have already determined the types and amount of the transfers to be made to each province/municipal/district. Subsequently, the Director General of Fiscal Balance, acting on behalf of the State Treasurer, transfers the funds directly from the State General Treasury Account at Bank Indonesia to the General Treasury Accounts of the Local Governments, which are normally held with local development banks or other public banks at the local level, through the issuance of a Payment

Order by the Budget Controller (KPA) and an SP2D by the State Treasurer (BUN).

The consequences of this new system are as follows: (a) it accelerates the finalization of Local Government budgets enactment; (b) it encourages the implementation of the treasury single account system by channeling all transfer funds through a single bank account designated by the Local Government; (c) it accelerates the implementation of local development by making funds available in a more timely manner; (d) it reduces unspent budget balances at the end of the year by allowing for activities to be undertaken at an earlier stage; (e) it accelerates the production of transfer realization data; (f) it improves accountability in the preparation of the Report on Financial Transfers to Local Government; and (g) it improves the accuracy of the local government financial information system (SIKD).

As one of the components of the Report on Financial Transfers to Local Government, the Balance Sheet should contain a Transfer Liabilities account. This is in accordance with paragraph 8 of Government Accounting Standard No. 01, which states that liabilities are present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources. The same Government Accounting Standard provides that a Transfer Liability is an obligation on the part of a reporting entity to make a transfer payment to another entity as a result of statutory regulations.

Furthermore, paragraph 5 of Government Accounting Standard No. 09 (on accounting treatment of liabilities) once again defines liabilities as "present obligations that arise from past events, the settlement of which is expected to result in an outflow of government economic resources," and defines Estimated Liabilities as "liabilities whose date of maturity and the amount of which are still uncertain." Paragraph 6 states that the "principal characteristic of a liability is that the government has an outstanding obligation that settlement of which will result in a reduction of economic resources in the future." Meanwhile, paragraph 7 states that: "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" (direct quotation from English version of Government Accounting Standard No. 09). Accordingly, it is necessary for the Central Government Balance Sheet to record Transfer Liabilities to Local Governments

In this regard, recognition and measurement adhere to the regulations governing the transfer mechanisms, which require a number of conditions to be fulfilled in respect of each type of transfer. The types of transfer determine the types of Transfer Liabilities that arise.

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

Types of Transfer and Implementation Basis

No.	Type of Transfer	Implementation Basis
1.	Revenue-Sharing Transfers	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 or further regulation.
6.	Revenue-Sharing by Provinces	Government Regulation No. 65/2001

B. Recognition

1. Revenue-Sharing Transfer Liabilities

Revenue-Sharing Transfers are fund that are appropriated in the National Budget for allocation to Local Governments on a percentage basis to fund the needs of the Local Governments as part of the decentralization process. The Revenue-Sharing Transfers originate from taxes and receipts arising from natural resources. The tax-based Revenue-Sharing Transfers represent the share due to Local Governments from Land and Buildings Tax, Land and Building-Title Acquisition Tax, Article 25 and Article 29 Income Tax collected from domestic private taxpayers, and Article 21 Income tax. The natural resources-based Revenue-Sharing Transfers represent the share due to Local Governments from receipts arising from the forestry, mining, fisheries, oil and natural gas, and geothermal resources.

Revenue-Sharing Transfers consist of Tax Revenue and Tax on Natural resources. Revenue-Sharing Transfers are paid by the Central Government to Local Governments, but may also be made by provincial governments to district/municipal governments. In accordance with the legislation, Revenue-Sharing Transfers are calculated and transferred based on actual revenue collected.

Revenue-Sharing Transfer Liabilities arises because of:

- Misdirection of transfer or miscalculation of transfer amount;
- Underestimation of transfer amount due to receipts exceeding forecasts; or
- Underpayment of transfer due to inability to identify producing area as per the end of the fiscal year.

Revenue-Sharing Transfer Liabilities that arise as a result of the misdirection of the transfer or miscalculation of the transfer amount constitute Short-Term Liabilities that must be recognized at the time the mistake is uncovered. This is in accordance with paragraph 10 of Government Accounting Standard No. 10, which states that every error should be corrected as soon as it is discovered. In respect of such an error, the Central Government recognizes a Transfer Liability to Local Government A and a Transfer Receivable from Local Government B.

Revenue-Sharing Transfer Liabilities may also arise due to the operation of law. Revenue-Sharing Transfers are calculated on a percentage basis having regard to actual receipts. Thus, if receipts exceed the estimate employed in framing the National Budget, this will give rise to a Revenue-Sharing Transfer Liability in the amount of the shortfall. A Revenue-Sharing Transfer Liability such as this is recognized at the time when the amount is determined conclusively, after conducting a reconciliation up to the end of December. This is in accordance with paragraph 18 of Government Accounting Standard No. 9, which provides that a liability will be recognized when "changes on such obligation have a settlement value that can be reliably measured."

Revenue-Sharing Transfer Liabilities can also arise in a situation where an insufficient transfer has been made as a result of the fact that the entitled producing region has proved incapable of being identified by the end of the fiscal year. A Transfer Liability such as this arises because the legislation requires particular types of revenue to be shared with the areas producing the commodities/products based on certain percentage of realized revenue. Thus, if such an area cannot be identified, its share of the revenue will not be transferred, thereby giving rise to a Transfer Liability.

Transfer Liabilities, as described above, are recognized at the time of preparation of the financial statements at the end of the year. This is in line with paragraph 25 of Government Accounting Standard No. 09, which states that in the case of a non-exchange transaction, a liability must be recognized in respect of the outstanding amount that has yet to be paid as per the reporting date. Such a Transfer Liability should be included in Estimated Liabilities based on the consideration that the definitive amount and the entitled recipients will only be capable of being identified after the end of the fiscal year.

2. General Transfers

General Transfers are funds that are appropriated in the National Budget for the purpose of evening out the financial capacity of Local Governments in the context of decentralization. General Transfers are allocated to the provinces, and districts/municipalities, and are calculated based on a formula that consists of the fiscal gap and a base allocation. The fiscal gap is the difference between the Local Government's fiscal needs and capacity. Fiscal needs are calculated using the following variables: population, area, the Construction Cost Index, Gross Regional Domestic Product per capita, and the Human Development Index. Fiscal capacity is measured based on Own-Source Revenue, and DBH. The base allocation is calculated based on the number of civil servants working for the local government. The Fiscal Balance Act No. 33 of 2004 provides that the total amount of General Transfers should not be less than 26 percent of the Net Domestic Income as stated in the National Budget. After the identification of each region's allocation for the fiscal year, the President then issues a Decree confirming this. As part of the process of paying the General Transfers, each Local Government receives a monthly payment of 1/12th of its allocation under the Presidential Regulation.

Should at the end of the year there still be outstanding amounts that have yet to be transferred, that is to say, the balance between the total amount transferred during the fiscal year and the amount stipulated in the Presidential Decree, then the balance must be recorded as a General Transfer Liability owed by the Central Government to Local Governments provided that this is recognized by the Central Government and an official document stating this has been issued. The shortfall in the disbursement of General Transfer funds could be due to a delay in the administrative process, or an error in the transfer destination or the amount of the transfer.

The channeling of General Transfers may be delayed by the Central Government as a sanction against a particular recipient region. This however will not affect the right of the region to the funds and so must be recognized as a General Transfer Liability at the time of preparation of the Balance Sheet. An insufficient transfer may arise due to the misdirection of a General Transfer. For example, in 2008, Local Government A was allocated Rp 300 billion in General Transfer funds, and Local Government B Rp 400 billion. During the course of fiscal year 2008, General Transfers of Rp 330 billion were paid to Local Government A, and Rp 340 billion to Local Government B, meaning that Local Government B had been paid Rp 60 billion less than it should have been.

The General Transfer Liability that arises as a result of the miscalculation or misdirection of a transfer constitutes a Short-Term Liability that must be recognized at the time it becomes known. This is in line with paragraph 10 of Government Accounting Standard No. 10, which states that every error must be corrected as soon as it has been identified. In respect of the example above, the Central Government will recognize a Transfer Liability to Local Government B and a Transfer Receivable from Local Government A.

3. Special Transfer Liabilities

Special Transfers are transfers of funds that are appropriated in the National Budget for allocation to particular areas for the purpose of helping funding particular activities that come within the responsibilities of the region and are in accordance with national priorities, as set out in the Government Work Plan for the fiscal year concerned. The relevant ministers propose the activities to receive Special Transfer funds, and these are confirmed after consultation with the Minister of Home Affairs, Minister of Finance, and State Minister of National Planning. The relevant minister then issues a decision on the particular activities to the Minister of Finance.

The calculation of Special Transfers involves 2 stages, namely, the identifying of regions to receive Special Transfers, and determining the amount of the Special Transfers to each region. The identifying of the beneficiary regions involves the application of general criteria, special criteria and technical criteria, while the amount of the allocation is based on an index calculation made up of the general criteria, special criteria and technical criteria. The general criteria are formulated based on the financial capacity of the region as reflected in its general budgetary receipts after the deduction of employee salaries. The special criteria are formulated based on the legislation governing local autonomy, together with the specific characteristics of the region. Finally, the technical criteria are formulated based on indicators for the activity to be funded by the Special Transfer and formulated by the incumbent technical minister based on technical index.

Should at the end of the year there still be outstanding amounts that have yet to be transferred, that is to say, the balance between the total amount transferred during the fiscal year and the amount that should have been transferred under the legislation, then the balance must be recorded as a Special Transfer Liability owed by the Central Government to Local Government provided that this is recognized by the Central Government and an official document stating this has been issued. The shortfall in the disbursement of Special Transfer funds could be due to an error in the transfer destination or the amount of the transfer.

The Special Transfer Liability that arises as a result of the miscalculation or misdirection of a transfer constitutes a Short-Term Liability that must be recognized at the time it becomes known. This is in line with paragraph 10 of Government Accounting Standard No. 10, which states that every error must be corrected as soon as it has been identified. In respect of the example above, the Central Government will recognize a Transfer Liability to Local Government A and a Transfer Receivable from Local Government B.

4. Special Autonomy Transfers

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 funding special programs that come within the jurisdiction of the provinces, and are paid in tranches.

Should at the end of the year there still be outstanding amounts that have yet to be transferred, that is to say, the balance between the total amount transferred during the fiscal year and the amount that should have been transferred under the legislation, then the balance must be recorded as a Special Autonomy Transfer Liability owed by the Central Government to Local Governments’ concerned, provided that this is recognized by the Central Government and an official document stating this has been issued. The shortfall in the disbursement of Special Autonomy Transfer funds could be due to an error in the transfer destination or the amount of the transfer.

5. Other Transfer Liabilities

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 be recorded as an Other Transfer Liability by the Central Government, provided that it has been recognized by the Central Government and an official document stating this has been issued. In the case where disbursement is conditional, such as the reaching of a certain stage of progress, a claim will arise at the time the project has reached the predetermined stage, provided that payment has still not been made by the Central 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, recognition of liabilities of this type is carried out in the same way as recognition of Revenue-Sharing Transfer from the Central Government.

Revenue-Sharing Transfer Liabilities on the part of 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 towards the end of the year. No liabilities 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 Transfer Liabilities by the Local Government concerned.

C. Measurement

The measurement of Transfer Liabilities that arise and are recognized is carried out in accordance with paragraph 18 of Government Accounting Standard No. 09, which means that the following procedures will be applied:

a. Transfer Liabilities that arise due to misdirection and/or miscalculation are measured based on the shortfall in transfer entitlements that arises as a result of the error;

b. Transfer Liabilities that arise due to postponement in the disbursement of funds are measured based on the shortfall in transfer entitlements that arise as a result of the postponement;

c. Transfer Liabilities that arise as a result of actual receipts exceeding the budget forecast are measured based on the shortfall in transfer entitlements that arises as a result of the underestimation;

d. Transfer Liabilities that arise due to the impossibility of identifying producing areas are measured based on the shortfall in transfer entitlements that arises as a result.

D. Presentation and Disclosure

1. Liabilities Accounting

The records that need to be made in accounting for Transfer Liabilities are as illustrated below:

Account Code	Description	Debit	Credit
XXX	Fund Equity - Short-Term Provisions	XXX	
XXX	Estimated Revenue-Sharing Transfers liability		XXX
XXX	General Transfer Liabilities		XXX
XXX	Special Transfer Liabilities		XXX
XXX	Special Autonomy Transfer Liabilities		XXX
XXX	Other Transfer Liabilities		XXX

2. Balance Sheet Presentation

Under paragraph 11 of Government Accounting Standard No. 09, 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. The presentation of Transfer Liabilities in the Balance Sheet will be as illustrated below:

Balance Sheet

Per 31 December 20XX

	Assets			Liabilities	
				Short-Term Liabilities	
				Estimated Revenue-Sharing Transfers liability	XXX
				General Transfer Liabilities	XXX
				Special Transfer Liabilities	XXX
				Special Autonomy Transfer Liabilities	XXX
				Fund Equity	
				Short-Term Liabilities Provision	(XXX)

3. Disclosures in the Notes to the Financial Statements

After presentation in the Balance Sheet, information on the Transfer Liability Accounts must be disclosed in the Notes to the Financial Statements. The said information consists of the following:

1. The accounting policies used in valuing, recognizing and measuring liabilities;
2. The details of each liabilities and balances by age; and
3. Explanations on settlement of the liabilities.

Transfer Liabilities are disclosed in the Notes to the Financial Statements, together with the details of each type of liability. This is in line with paragraph 84 of Government Accounting Standards No. 09, which states that "Government debts must be disclosed in detail in the form of a schedule of debts to provide better information to the users."

4. Examples:

Transfer Liability Arising because of Misdirected Transfer

Article 6 of Minister of Finance Regulation No. 21/PMK.07/2009 on transfers to Local Governments provides that the Minister of Finance, as the budget controller for transfers to the regions, has the power to make such transfers. The said power covers:

a. the preparation of DIPA (budget expenditure documents) for each region;

b. the issuance of SPAT documents for each transfer DIPA document;

c. the issuance of SPP documents for each transfer DIPA document;

d. the issuance of SPM documents for each transfer DIPA document; and

e. the preparing of accountability reports.

The Minister of Finance has delegated these powers to the Director General of Fiscal Balance, who is authorized to further delegate some of these powers to designated officers.

The Director General of Fiscal Balance is responsible for issuing Payment Orders directing the transfer of funds from the State General Treasury Account to a Local Government General Treasury Account. During the transfer process, errors may arise due to the misdirection of the transfer, thereby leaving one Local Government underpaid and another overpaid. For example, in fiscal year 2008, the municipality of Kediri received a Special Transfer appropriation of Rp 10,000,000,000, while Kediri District received an allocation of Rp 15,000,000,000. During fiscal year 2008, an error occurred when making the transfers as a result of which Kediri Municipality received a transfer of Rp 13,000,000,000, while Kediri District received a transfer of Rp 12,000,000,000. Thus, at the end of fiscal year 2008, Kediri District had been underpaid by Rp 3,000,000,000, while Kediri Municipality had been overpaid by Rp 3,000,000,000. The shortfall in the case of Kediri District constitutes a Transfer Liability on the part of the Central Government to Kediri District at the end of fiscal 2008, while the excess amount paid to Kediri Municipality represents a Transfer Receivable owed to the Central Government at the end of fiscal year 2008. The resolution of this situation may be effected by way of a set-off or by direct repayment. These two methods of payment will only affect the Budget Realization Statement, while the journal entries for the Balance Sheet will be the same.

At the Central Government level, the journal entries recognizing the Transfer Liability to Kediri District and the Transfer Receivable from Kediri Municipality will be as illustrated below:

Account Code	Description	Debit	Credit
XXX	Fund Equity – current Receivable Provision	3,000,000,000	
XXX	Special Transfer Liability		3,000,000,000
XXX	Special Transfer Receivable	3,000,000,000	
XXX	Fund Equity – current Receivables Provision		3,000,000,000

In the case of Kediri Municipality, the excess payment of Rp 30,000,000 represents a Transfer Liability, so that the following journal entry will need to be made:

Account Code	Description	Debit	Credit
XXX	Fund Equity – current Receivable Provision	3,000,000,000	
XXX	Special Transfer Liabilities		3,000,000,000

Meanwhile, in the case of Kediri District government, the shortfall of Rp 3,000,000,000 in its Special Transfer represents a Transfer Receivable so that the following journal entry will be made:

Account Code	Description	Debit	Credit

XXX	Special Transfer Receivable	3,000,000,000	
XXX	Fund Equity – current receivable Provision		3,000,000,000

Transfer Liabilities arising from receipts exceeding forecasts

Examples of these sort of Transfer Liabilities frequently arise in the case of revenues accruing from the natural resources sector from exploration fees and exploitation royalties (both non-tax state revenues) in the mining sector. According to the legislation, 80% of royalties and exploration fees in the mining sector are to be distributed to the relevant Local Governments, with their respective shares being as follows:

1. 16% for the province;
2. 32% for the producing district/municipality; and
3. 32% to be divided out equally among the other districts/municipalities in the same province.

Banten Province	Estimated Non-Tax Revenues in Budget from Royalties	80% Share Non-Tax Mining Royalties to Local Governments	80% Local Government Allocation divided up as follows					Allocation Per Local Government
			16% for Province	32% for Producing Districts/Municipalities	32% for other Districts/Municipalities in Same Province			
1	2	3	4	5	6	7	8	9
Lebak District								
Pandeglang District								
Serang District								
Tangerang District								
Cilegon District								
Tangerang Municipality								
Provincial Government								
Total								

The allocation ceiling set out in the Minister of Finance Regulation is set as the allocation per Local Government as shown in column 9 of the above table. Revenue-Sharing Transfers from the mining sector have been paid to each Local Government in the amounts shown in the table above. However, based on the end-of-year budget reconciliation, it was ascertained that actual collection of royalties was as shown in the table below. Thus, there was a transfer shortfall of Rp 4,000,000,000 (Rp 36,000,000,000 – Rp 32,000,000,000), with the details per Local Government being the difference between column 9 in the table below less column 9 in the table above.

Banten Province	Estimated Non-Tax Revenues in Budget from Royalties	80% Share Non-Tax Mining Royalties to Local Governments	80% Local Government Allocation divided up as follows					Final Allocation Per Local Government
			16% for Province	32% for Producing Districts/Municipalities	32% for other Districts/Municipalities in Same Province			
1	2	3	4	5	6	7	8	9
Lebak District								
Pandeglang District								
Serang District								
Tangerang District								
Cilegon District								
Tangerang Municipality								

Provincial Government								
Total								

The journal entry in the above example will be as follows:

Account Code	Description	Debit	Credit
XXX	Fund Equity – Short Term Provisions	4,000,000,000	
XXX	Short term Transfers Liabilities		4,000,000,000

Transfer Liabilities arising from inability to identify producing region

An example of this is as follows: In the Reconciliation Report on Non-Tax Revenues in the Forestry Sector for fiscal 2007, which was prepared by the Financial Bureau at the Forestry Ministry’s General Secretariat, in collaboration with the Jakarta No. IV local office of the State Treasury, it was stated that non-tax revenues from the forestry sector amount to Rp 2,046,000,000,000. Based on this reconciliation, we can differentiate between state receipts that were already shared out in fiscal 2007, and those that were not, as shown in the table below:

Forestry Resources	Non-Tax Revenue Realization, 01 Jan – 31 Dec 2007	Revenue-sharing transfers 2007 (Government Regulation No. 55 of 2005)		Realization of Revenue-sharing transfers, Quarters I-IV, 2007	Revenue-sharing transfers yet to be paid	
1	2		3	4	5	6
Reforestation Funds						
Forestry Resources Provision						
Fees for Forestry Licenses						
Total						

Of the total forestry revenues that were not shared out in fiscal 2007, the producing regions were capable of being identified in the case of revenues amounting to Rp 255,300,000,000, but were not capable of being identified in the case of revenues amounting to Rp 76,700,000,000. Thus, the total Transfer Liabilities of the Central Government amounted to Rp 332,000,000,000, with the entitled regions being identified in the case of Transfer Liability worth Rp 255,300,000,000 of these, and not capable of being identified in the case of liabilities worth Rp 76,700,000,000.

Forestry Resources	Revenue-sharing transfers yet to be paid	Planned payment of revenue-sharing transfers from Natural Resources Revenue Sharing Reserve Fund (producing area identified)	Outstanding 2007 Revenue-sharing transfers yet to be paid (producing area not identified)
1			
Reforestation Fund			
Forestry Resources Provision			
Fees for forestry licenses			
Total			

The journal entry in this case will be as illustrated below:

Account Code	Description	Debit	Credit
XXX	Fund Equity – Short Term Provisions	332,000,000,000	
XXX	Estimated Revenue-Sharing Transfer Liabilities		332,000,000,000

CHAPTER V PAST SERVICE LIABILITIES

Definition

The Civil Service Pension Scheme was established and is operated under the Employee and Dependent Persons' Pensions Act 1969 (No. 11 of 1969). The scheme is funded by contributions from both the government, as the employer, and civil servants, as the employees. However, under Government Regulation No. 25 of 1981, contributions to the pension program and the Golden Years' Savings Scheme are as yet only paid by the employees (4.75% and 3.25% of their basic salaries, respectively), with the government as yet not fulfilling its obligation to make contributions.

To date, the Civil Service pension arrangements adhere to the current cost financing system, also known as the "pay as you go" system. This means that pensions are paid directly by the government through the National Budget, on a shared basis with PT Taspen (Persero).

In contrast with the above system are the fully funded systems envisaged by the Pension Funds Act 1992 (No. 11 of 1992). Under such systems, both the participants and the employer pay contributions to the pension fund and upon an employee’s retirement, his pension is subsequently paid by the pension fund.

Should the current “pay as you go” Civil Service pension arrangements be replaced by a fully funded system, as originally envisaged by Act No. 11 of 1969, the government would have to pay contributions for past services that have not been paid to date, which would give rise to past service liability (PSL) on the part of the government to the Civil Service pension fund.

Recognition

Under Act No. 11 of 1969, the government has committed itself to paying pensions to civil servants. Accordingly, if the “pay as you go” system is adhered to, the government has to recognize the entitlements of both retired and serving civil servants as liabilities.

Should a fully funded pension system be established, then the cash value of civil servants’ pensions must be recognized as liabilities to the designated Pension Fund.

Measurement

Pension liabilities are calculated based on actuarial assumptions, less the contributions of participants. These actuarial assumptions represent the present value of the pension benefits accrued in a pension plan.

Presentation and Disclosure

Should the amount of pension liabilities be capable of being accurately and reliably measured, the said liabilities are presented in the Balance Sheet as Long-Term Liabilities to employees in the case of the "pay as you go" system, and as Long-Term Liability to the pension fund in the case of the fully funded system (it should be noted that for various reasons pension liabilities are currently only disclosed in the Notes to the Financial Statements).

The disclosure of information on Pension Liabilities in the Notes to the Financial Statements may include the size of liabilities that are capable of being estimated, the sources of pension liabilities, the appraisal method and actuarial assumptions employed, the name of the actuary, and the date of the actuarial report used as the basis for the recognition of pension liabilities.

CHAPTER VI CONTINGENT LIABILITIES

According to paragraph 5 of Government Accounting Standard No 09 (Accounting for Liabilities), a contingent liability is defined as:

1. a potential liability that arises from a past event, whose existence is made certain by the occurrence or non-occurrence of one or more events in the future that are not entirely under the control of the government; or

2. a present liability that arises as a result of a past event, but which is not recognized because:

   (i) it is not probable that the government will disburse resources that provide economic benefits to settle the liability; or

   (ii) the amount of the liability cannot be reliably measured.

Recognition

Many past events can give rise to present liabilities. In some rare situations, such as legal claims, there may be significant differences of opinion as to whether the event in question actually took place, or whether it gives rise to a present liability. In such cases, the government needs to consider whether a present liability exists as per the date of the Balance Sheet by carefully weighing up all of the available evidence, including the opinions of experts. Based on the evidence, if it is concluded that there is significant probability that a present liability does not exist as per the date of the Balance Sheet, the government will treat the potential liability as a contingent liability. Such disclosure is not required if the likely outlay of resources is small.

Future outcomes in the case of contingent liabilities are often difficult to predict. Accordingly, such liabilities must continually be reviewed so as to determine whether there is a likelihood that an even greater outlay of resources will ensue. Should this be the case, the government will need to recognize the estimated extent of such liabilities in the financial statements at the time the level of probability changes, save where the extent is incapable of being reliably estimated.

Measurement

The size of contingent liabilities are incapable of being precisely measured. Accordingly, they require assessment by competent professionals.

Presentation and Disclosure

While contingent liabilities are not presented on the Balance Sheet, they must be disclosed in the Notes to the Financial Statements.

Such disclosure shall provide the following information:

1. The characteristics of the contingent liability;
2. the estimated financial impact;
3. uncertainties surrounding the amounts and time line involved;
4. possibility of indemnification by third parties.

Illustrations:

1. Government guarantee for construction of coal-fired power plant

In order to increase power supply, the government instructed PT PLN (Persero) to construct 80 power plants in Java and outside Java. In respect of this project, PT PLN requested that the government act as sole guarantor so as to enable to power utility to secure a loan from a syndicate of domestic banks. The government acquiesced. The guarantee covered situations where PLN was unable to fulfill its obligations due to changes in government policy, such as the halting or postponement of the power-sector development project.

On 31 December 2006 and 31 December 2007, based on the evidence available at the time of preparation of the government financial statements, no events had occurred that would give rise to liabilities under the guarantee, and the guarantee was only disclosed in the Notes to the Financial Statements as a contingent liability.

On 31 December 2008, based on evidence available at that time, a present obligation had arisen as a result of a past and binding event that gave rise to a significant possibility that the government would have to expend resources. This issue was then recognized by the government as an estimated liability based on the best estimate of the resources that would be needed to cover the liability.

2. Government guarantee for Jakarta Monorail Project

In order to reduce traffic congestion in Jakarta, the Jakarta Provincial Government drew up a plan for the construction of a monorail system. The Provincial Government requested that the National Government provide a guarantee should the minimum number of passengers necessary for the project viability not materialize. The Central Government agreed, which agreement was evidenced by the issuing of Presidential Regulation No. 103 of 2006. The guarantee extended to 50% of the shortfall based on a minimum number of 160,000 passengers per day, or 50% of a maximum of USD 22,500,000 per year over the course of 5 years.

On 31 December 2006, based on the evidence available at the time of preparation of the government financial statements, no events had occurred that would give rise to liabilities under the guarantee, and the guarantee was only disclosed in the Notes to the Financial Statements as a contingent liability.

CHAPTER VII DEBT RESTRUCTURING AND WRITE-OFFS

A. Restructuring

According to Government Accounting Standard No. 09 (Accounting for Liabilities), a debt restructuring is an agreement between the creditor(s) and the debtor(s) to modify the covenants of the loan agreement, with or without a reduction in the amount of the debt, in the form of:

(a) Refinancing, which replaces the existing debt, including arrears, with a new debt; or

(b) Rescheduling, or modifying the loan covenants by changing the terms and conditions of the existing agreement. A Debt Rescheduling may take the form of:

- A change in the payment schedule;
- An extension of the grace period;
- The rescheduling of principal and interest payments that fall due and/or are in arrears.

Thus, a restructuring may result in more flexible or less onerous repayment terms than were contained in the original agreement. Such dispensations should only be granted in a situation where the debtor is experiencing financial difficulties. Besides arising from an agreement between the creditor and debtor, more favorable repayment terms may also be imposed by the court or as a result of the operation of law.

A debt restructuring may take place prior to, at the time of or subsequent to the maturing of the debt. The recognition, measuring, presentation and disclosure of the new debt resulting from a restructuring are as provided for by paragraphs 67 and 70 of Government Accounting Standard No. 9, which read as follows:

Paragraph 67: "In a debt restructuring through modification of the debt covenants, the debtors must record the impact of the restructuring prospectively from the time the restructuring occurred and are not allowed to change the recorded values of debts at the time of restructuring, unless the recorded amounts exceed the amount of future cash payments as 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 relevant liabilities account."

Paragraph 70: "If the amount of future cash payments as determined under the new debt covenant, including payment of interest and principal, is below the carrying amount, then the debtor must decrease the carrying debt amount to the same amount as that of future payments, as determined by the new covenant. This must be disclosed in the Notes to the Financial Statements as part of the disclosure of the relevant liabilities account.”

Recognition

A restructuring is recognized at the time of signing of the restructuring agreement between the creditor and debtor, and is effective from the commencement date stated in the agreement.

Measurement

The amount of the new debt under a restructuring agreement is equivalent to the amount of the old debt, plus and/or minus the absolute value of factors that increase or reduce the debt, as stated in the restructuring agreement.

Presentation and Disclosure

The new debt resulting from a restructuring agreement is presented on the Balance Sheet based on the same classification as the longstanding liability it replaced. A debt restructuring is not recorded on the Cash Flow Statement.

The following matters need to be disclosed in the Notes to the Financial Statements in connection with a debt restructuring:

- The credit terms in the original agreement that have been revised;
- The new credit terms in the restructuring agreement, for example, the new interest rate, the absolute amount of the cut in accrued interest, the absolute amount of the cut in debt principal, and the length of time by which maturity has been deferred.
- Significant matters that led to the restructuring.
- Such other information as may be deemed necessary according to disclosure fairness having regard to paragraphs 67, 70 and 85(e) of Government Accounting Standard No. 9.

Examples:

In 2003, Local Government A secured a loan from the Regional Development Bank for a market development project. The loan was worth Rp 10 billion and was subject to the following terms:

a) It was to be repaid over 5 years, running from 31 December 2003 to 31 December 2007;

b) Interest was chargeable at a rate of 5% on the loan balance;

c) Repayment was to be made by way of annual installments of Rp 2 billion, plus interest.

d) The repayment schedule was as follows:

<table>
<tr><th rowspan="2">Date</th><th colspan="2">Installments</th><th rowspan="2">Debt Balance</th></tr>
<tr><th>Principal</th><th>Interest (5% per annum)</th></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td></td><td></td></tr>
</table>

As per the end of 2007, Local Government A had repaid principal amounting to Rp 2,000,000,000. No interest had as yet been paid.

The principal and interest arrears that had to be paid as per 31 December 2007 were as follows:

<table>
<tr><th rowspan="2">Date</th><th colspan="2">Installments</th><th rowspan="2">Interest Arrears</th><th rowspan="2">Debt Balance</th></tr>
<tr><th>Principal</th><th>Interest</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td></td><td></td><td></td></tr>
</table>

Thus, the debt balance of Local Government A on the Balance Sheet as per 31 December 2007 amounted to Rp 10,331,803,125.

On 5 January 2008, Local Government A and the bank reached an agreement under which the debt would be restructured, effecting counting from 1 January 2008.

The measurement and presentation of the new debt on the Balance Sheet, based on the restructuring mechanism selected, will be as described below:

a. Refinancing

Replacement of old debt, including arrears, with new debt

The old debt is replaced by a new debt in the amount of the outstanding amount due on the old debt, with a fixed interest rate of 5% per annum over 5 years and repayments due to commence on 31 December 2008. The payment schedule and amounts of these installments are as shown below:

Date	Installments		Debt Balance
	Principal	Interest (5% per annum)	
Total			

Based on paragraphs 67 and 70 of Government Accounting Standard No. 9, it may be concluded that the carrying value of the debt on the Balance Sheet will change if future cash payments (value of the new debt under the restructuring agreement) are less than the present carrying value. The amount of the new debt on the Balance Sheet will be the same as that agreed under the debt restructuring. However, if the amount of the new debt is equal to or greater than the present debt balance, the debt balance stated on the Balance Sheet will not change and this will only be disclosed in the Notes to the Financial Statements.

Thus, the presentation of Local Government A’s debt based on this type of restructuring will be as follows:

Debt Balance per 31 December 2007	10,331,803,125
Amount of new debt	10,331,803,125
Difference	0

As the amount of the new debt is the same as the carrying amount (Rp 10,331,803,125), the debt balance resulting from the restructuring will continue to be Rp 10,331,803,125. Accordingly, information on the restructuring only needs to be disclosed in the Notes to the Financial Statements.

B. Rescheduling or Modification of Loan Covenants

A rescheduling or modification of loan covenants changes the terms and conditions of the existing agreement.

For example, a bank foregoes 60% of interest arrears and reduces the interest rate to 3% per annum, with the loan being repayable over 5 years.

In this case, the calculation of the new debt will be as follows:

Principal Arrears		8,000,000,000
Accrued Arrears	2,331,803,125	
-60 discount	(1,399,081,875)	
Net interest		932,721,250
Total debt		8,932,721,250
Carrying Amount		10,331,803,125
Debt Reduction		1,399,081,875

The journal entry recording the new debt will be as illustrated below:

Account Code	Description	Debit	Credit

XXX	Domestic Liabilities – Bank	1,399,081,875	
XXX	Fund Equity - Provision for Domestic Liabilities – Bank		1,399,081,875

B. Debt Write-Offs

According to Government Accounting Standard No. 09, a "debt write-off is a voluntary cancellation of a debt by a creditor, either in all or in part, as evidenced by a formal agreement between the parties." Furthermore, "In respect of a debt write-off, settlement arrangements be entered into whereby the debtor transfers to the creditor cash or non-cash assets with a value of less than the carrying amount of the debt."

Paragraph 75 of Government Accounting Standard No. 09 reads as follows: "if the settlement of a particular debt at below the carrying amount is based on the payment of cash, then paragraph 70 shall apply."

Then, according to paragraph 76, "If the settlement of a particular debt at below the carrying amount is based on the surrender of non-cash assets, the entity, as the debtor, must at first revalue non-cash assets so as to ascertain their fair value, and then apply paragraph 70. The relevant liability and non-cash asset accounts should also be disclosed in the Notes to the Financial Statements.

Example:

One example of a debt write-off program is the Debt2Health agreement between the Government of Indonesia and that of Germany, which is worth Euro 25 million and is designed to divert debt into healthcare initiatives. The program commenced in 2008, and under it Indonesia will receive debt write-offs from the German government amounting to twice the value of the healthcare program. In accordance with the agreed mechanism, the Indonesian government will provide funds to Global Fund, an international agency that works to prevent AIDS, tuberculosis and malaria. Global Fund then submits proofs of payment to the German government.

Financing for the Debt2Health program is to be paid by installment over 5 years – from 2008 to 2012. The first payment of 5 million Euro, or Rp 73 billion, was made on 30 May 2008.

Based on the above example, in line with the intergovernmental agreement the debt write-off will only be recognized on the Balance Sheet at the time when the Indonesian government makes payments to Global Fund. The first payment of Euro 5 million, or Rp 73 billion, was made on 30 May 2008.

The value of the debt written off was twice what was paid to Global Fund. Thus, for the first payment made on 30 May 2008, the amount of the debt written off will be Euro 10 million, or Rp 146 billion.

The journal entries recording the aforesaid payment and debt write-off will be as illustrated below:

Payment

Description	Debit	Credit
Financing Expenditure*)	73,000,000,000	
Cash		73,000,000,000

Debt Write-off

Description	Debit	Credit
External Liabilities	146,000,000,000	
Fund Equity - External Liabilities Provision		146,000,000,000

*)

1. The Financing Expenditure account is debited as it is assumed that the budget for this program is appropriated in the Financing Expenditure account in the National Budget.
2. Should the funding not constitute Financing Expenditure, but be subject to special conditions, such as where creditor X will write off part of the Indonesian government’s debt provided that the government provide 1,000 high school laboratories, then the relevant expenditure account for this purpose will be debited -- in this case, the Capital Expenditure account.

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