Accounting for Micro, Small, and Medium Entities in Indonesia

Severinus Indra Wijaya
Member of the Indonesian Financial Accounting Standards Board
Institute of Indonesia Chartered Accountants (DSAK IAI)
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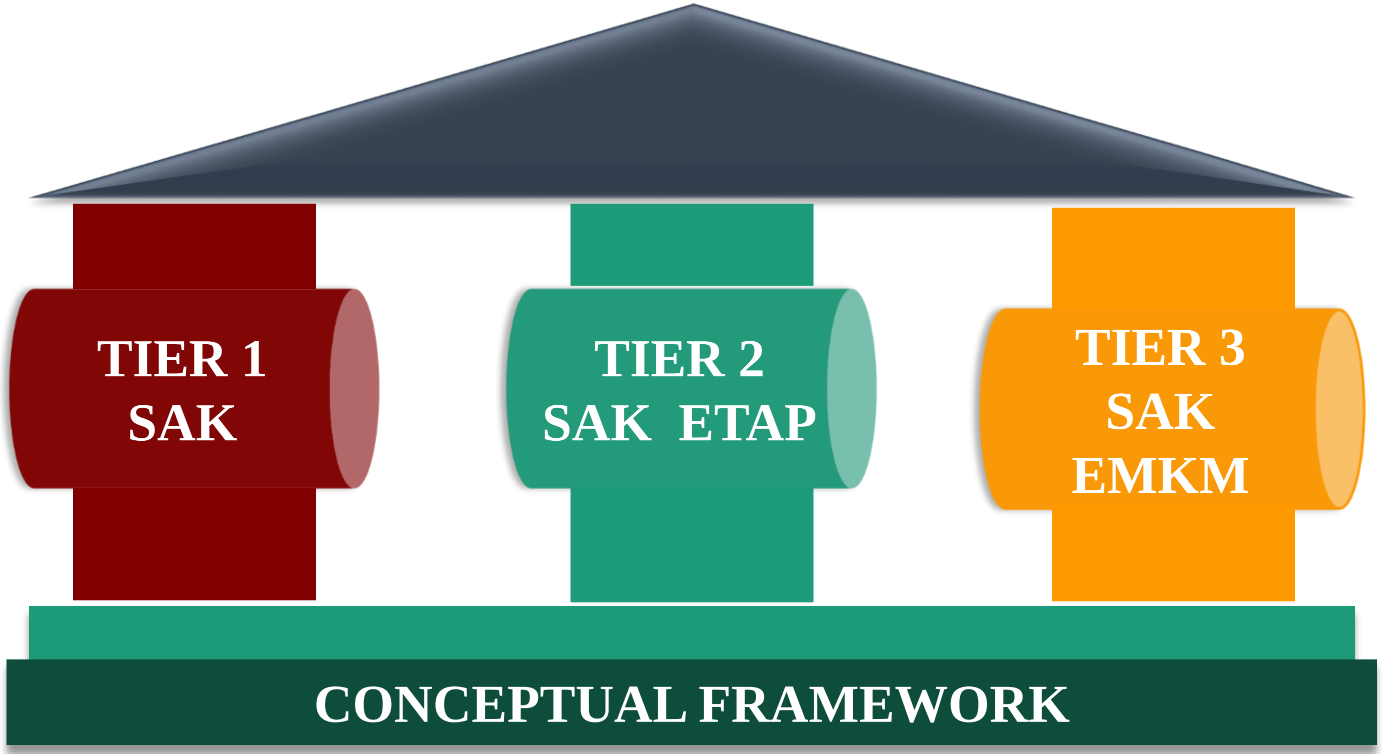
Tiers of Indonesian Financial Reporting



Sharia accounting standards – PSAK Syariah
(for sharia entities or those having sharia-based transactions)

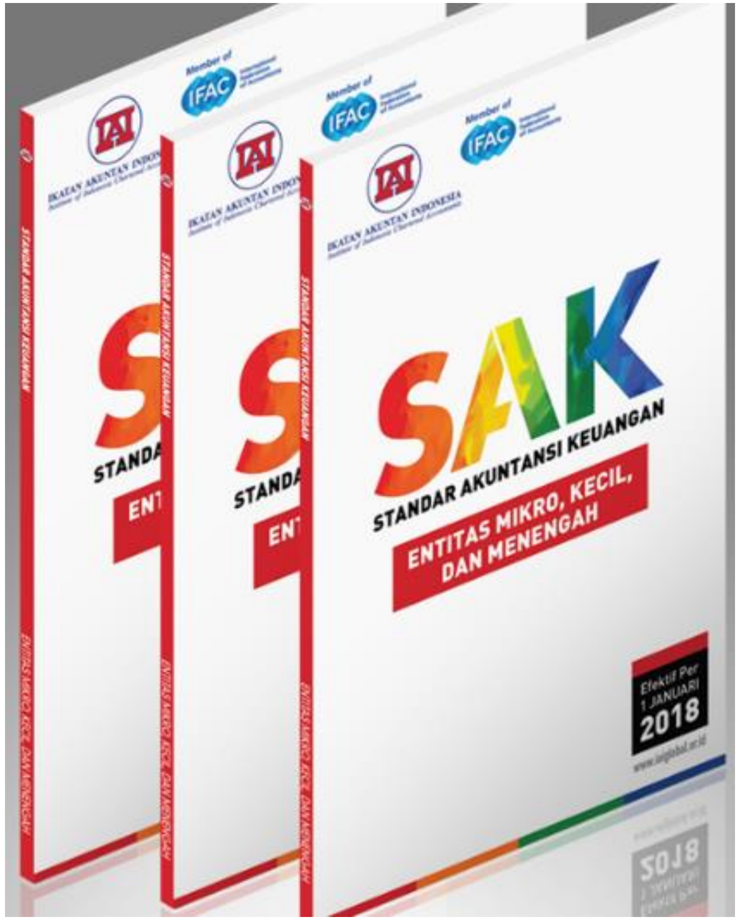
Not-for-profit financial reporting standards – PSAK 45
(for not-for-profit entities)

TIER 1: SAK - Financial Accounting Standards that are substantially converged with IFRS Standards

TIER 2: SAK Entitas Tanpa Akuntabilitas Publik - Financial Accounting Standards for entities without significant public accountability, initially developed by reference to the ED of IFRS for SME.

TIER 3: SAK Entitas Mikro, Kecil, dan Menengah – Financial Accounting Standards that are used by entities without significant public accountability and those who meet the definition and criteria of micro, small, and medium entities as defined by Indonesian Law No 20/2008). SAK EMKM was issued in 2016.

SAK EMKM at a glance



- A simplified and self-contained set of overarching accounting principles that are likely to be necessary for a typical micro, small, and medium entities in Indonesia as set out in the Indonesian Law No 20/2008.
- Simplifications include, but are not limited to, *fewer accounting policy choice, much-reduced disclosure requirements, and using only historical cost for measurement base*.
- *Point of references used when developing SAK EMKM:* (a) A Guide for Micro-sized Entities Applying the 2009 IFRS for SMEs, (b) FRS 105: The Financial Reporting Standard Applicable to the Micro-entities Regime, and (c) ISAR Accounting and Financial Reporting Guidelines for SME – Level 3 Guidance.
- Issued on October 26, 2016.
- Effective on January 1, 2018; early adoption is permitted.

SAK EMKM: Scope

1 Entities without significant public accountability

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2 Meet the definition and criteria* as per Law No 20/2008

At least for 2 consecutive years

May apply SAK EMKM

Election to switch from Tier-2 to Tier-3 reporting can only be made at the effective date of SAK EMKM, provided that such entity meets the requirements and criteria to apply SAK EMKM as at that date.

****Quantitative criteria*** *(Law No 20/2008)*

	Assets **OR**	Revenue
Micro	Up to IDR 50 millions	Up to IDR 300 millions
Small	IDR 50 - 500 millions	IDR 300 - 2,500 millions
Medium	IDR 500 - 10.000 millions	IDR 2,500 - 50,000 millions

****Qualitative criteria*** *(Law No 20/2008) e.g.:*

- *Not a subsidiary, associate, or branch (directly or indirectly) of a non-SMEs entity*
- *Do not have controlling interest in other entities*

SAK EMKM: General

- Measurement base: historical cost.
- Underlying assumption: accrual basis, going concern, and business entity concept.
- Accounting policies, accounting estimates, and errors: in the absence of specific requirements in SAK EMKM apply to transactions, other events or conditions, entities only refer to the definition, recognition criteria, measurement base, and concepts and pervasive principles as described in SAK EMKM.
  - Cannot apply requirements in Tier-1 or Tier-2 reporting standards.

SAK EMKM: Business Entity Concept

- Primarily relevant in case of sole proprietorship (or other unincorporated entities).
- Basic assumption: the reporting entity shall distinguish its assets and liabilities, and the results of its operations from that of the owners, or from other businesses/reporting entities. Otherwise, SAK EMKM will not be applicable.

SAK EMKM: Component of Financial Statements

- Minimum components: statements of financial position, statements of profit and loss, and notes to the financial statements.
  - Comparative information of preceding period is required.
  - No prescribed disclosure requirements.
  - Cash flow statement and statement of changes in equity are optional; not mandatory.

SAK EMKM: Inventories

- Scope includes inventories that are agricultural products.
- Measurement: at cost.
- Techniques for measuring costs: standard costing or retail costing.
- Inventory cost formulas: FIFO or weighted-average.
- Impairment of inventories because of damage or obsolescence is recognised as expense.

SAK EMKM: PPE

- Scope includes land and/or building held for rental or for capital appreciation or both, biological assets, and the acquisition of intangible assets together with PPE.
- Initial measurement: at cost.
- Subsequent measurement (except land): cost – accumulated depreciation.
- Repair and maintenance are recognised as expenses.
- No impairment is recognised.
- Depreciation method: straight line or declining balance method with no residual value.

SAK EMKM: Financial Assets and Liabilities

- Measurement: at transaction price.
- All transaction costs are expensed as incurred.
- No specific requirements for impairment of financial asset. But, entities that are subject to certain regulatory requirements (i.e. micro-finance entities in Indonesia) may apply impairment model as prescribed by such regulatory requirement.

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SAK EMKM: Revenue

- For revenue arising from construction contracts, entities may refer to progress billing as a proxy of percentage of completion (excluding advance receipt from customers that shall be recognised as unearned revenue).

SAK EMKM: Grants

- All grants, including government grants, are measured at nominal amount.
- Grants shall not be recognised until there is reasonable assurance that:
  - The entity will comply with the conditions attached to the grants; and
  - The grants will be received.

SAK EMKM: Leases, Borrowing Costs, Employee Benefits, and Income Tax

- All leases are treated as operating leases.
- All borrowing costs are expensed as incurred.
- All employee benefits (i.e. short-term benefits, termination benefits and other long-term benefits) are measured on an undiscounted basis.
- Income tax only comprised of current tax, measured using prevailing tax rate. Deferred taxes are not recognised.

Challenges

- Scope: determining which entities are allowed to apply SAK EMKM. The range might be too broad, with different financial reporting needs.
- Simplifying the requirements: how far shall it be?
  - Cost vs benefits
  - Limited resource and competence of the preparers
  - Various needs of the users of financial statements

Contact us

Institute of Indonesia Chartered Accountant
Grha Akuntan
Jl Sindanglaya 1 Menteng Jakarta 10310
www.iaiglobal.or.id
dsak@iaiglobal.or.id
Tel (021) 3190 4232

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