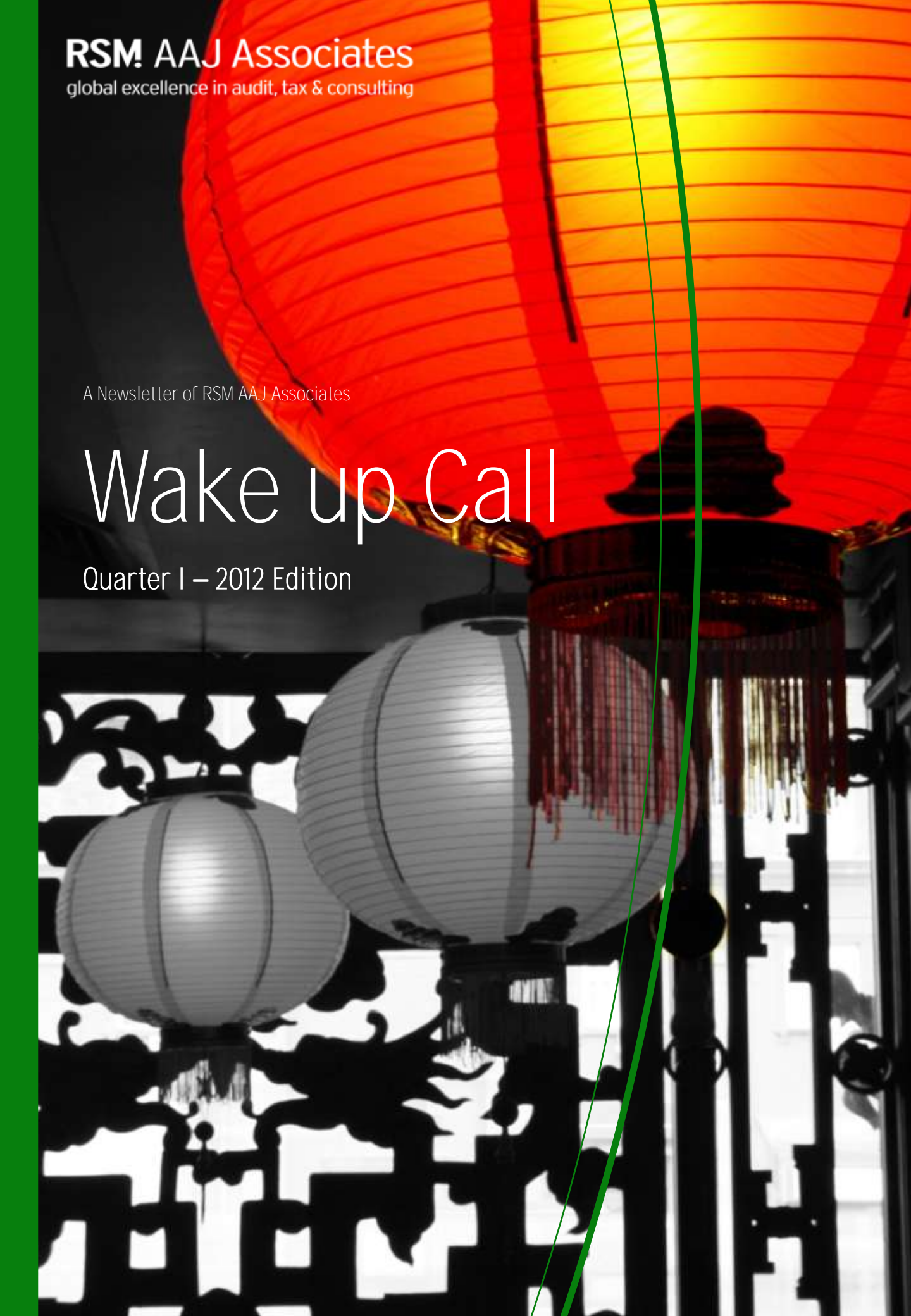


RSM AAJ Associates
global excellence in audit, tax & consulting

A Newsletter of RSM AAJ Associates

Wake up Call

Quarter I – 2012 Edition



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Message from the Chairman

Dear Colleagues,

Happy New Year 2012 and Happy Lunar New Year !

With great pleasure, on behalf of RSM AAJ Associates, I would like to wish all of you a prosperous and peaceful year in 2012. This is the first publication of our newsletter in 2012 and we do hope you enjoy reading this newsletter and find some value in it.

The Chinese named this year the year of the dragon. A year where they believe things will be good and prosperous for all of us. True we have seen some little improvement in the economy of those regions who were hit by the financial crisis last year and the years before, Europe and North America. But so far there is no strong sign that the economy will soon be moving as before the crisis. Since Europe and North America are known as the strongest economy in the past (i.e. as traders and investors), the crisis on those two regions can start affecting the Asia Pacific region. Business in Europe and North America are now buying less than what they used to buy from the Asia Pacific region. Thus, this can affect exporters in the Asia Pacific region. This may possibly include the exporters from Indonesia.

Toward the end of 2011, **Indonesia's** exports are still showing growth which is a very good sign for us. But this might not be for long because demand from Europe and North America is decreasing due to the crisis there. Indonesia is also known of having problem in building its infrastructure to support its economy and its export growth and it will take many years to improve the infrastructure in Indonesia. So thinks might not be as good as the year before in terms of business activities. Perhaps, domestic consumption and investment can be the key factor in supporting **Indonesia's** economic growth in the year of the dragon. So, be cautious on market movements.

Despite of the situation describe above, we stress that being optimistic (while being cautious) is an important factor in growing your business. **Let's** hope that the world economy experience a speedy recovery. We wish you all the best in 2012.

Sincerely,

Amir Abadi Jusuf

Business Combination: Do we still adopt SFAS 38 ?

Pooling of interest method is an accounting method for business combination exercise. Pooling of interest method basically is combining two entities by adding all of the assets and liabilities, item by item, of the two merged entities using book values. The merging entities will achieve mutual sharing in risks and benefits of the combined entity such that neither party can be identified as the acquirer.

The characteristics of this method are typically the transaction does not represent a change in economics substance and no goodwill, including negative goodwill, will be recognized. This type of transaction is usually conducted between entities under common control.

In January 2008, the International Accounting Standards Board (IASB) issued a revised IFRS 3 **“Business Combination”, which is effective on or after July 1, 2009.** One of the main changes of IFRS 3 is to eliminate pooling of interest method. So there will be a single method for business combination, that is: acquisition or purchase method. This IFRS 3 is adopted by *Ikatan Akuntan Indonesia* (IAI) under Statement of Financial Accounting Standards 22 (SFAS 22) **“Business Combination”.**

The main reasons of eliminating the pooling of interest method are as follows:

- 1) The pooling of interest method provides investors with less-relevant information to take an investment decision, since this method is an artificial accounting or which does not represent a change in economics substance.
- 2) The pooling of interest method disregard the exchange fair value in a business combination.
- 3) Investors find it difficult to compare entities that use different accounting methods for a similar business combination transactions.

A “special” Pooling of Interest Method in Indonesia

In Indonesia, in addition to SFAS 22 re: Business Combination, there is also SFAS 38 **“Business Combination Under Common Controlled Entities” and this SFAS 38 still adopt the pooling of interest method, but in a different way.** The pooling of interest in SFAS 38 does not really recognize usage of book values in business combination. Instead it requires the use of market value which at the end can potentially create a taxable gain.

Thus, indirectly it also recognized acquirer and acquire. Suspiciously, this got something to do with the tax office interest to obtain tax payment from large holding companies who tried to minimize tax via business combination exercise.

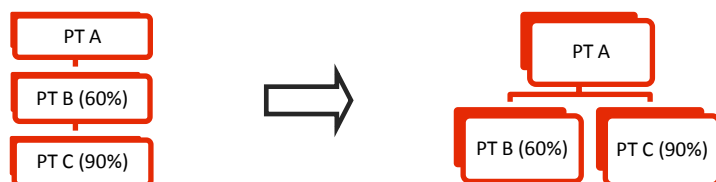
Typically the following transactions are covered under SFAS 38 **“Business Combination Under Common Controlled Entities”**

- a) A parent entity transfers a portion of the net assets of a subsidiary into the parent entity.
- b) A parent entity transfers a portion of its ownership interest in a certain subsidiary to another subsidiary.
- c) A parent entity exchanges a portion of the net asset of a subsidiary for additional shares issued by the other **parent’s subsidiary.**

The three transactions above are not transactions which represent a change in economics substance of ownership in parent entity or subsidiary.

Business Combination: Do we still adopt SFAS 38 ? (Cont.)

Let's take a look at the following example:



PT A acquired PT C which is under common control. PT A buy 90% of ownership in PT C from PT B with the following information:

Paid-up capital PT C : Rp 100 Billion
 Retained Earnings : Rp 10 Billion
 Net Assets PT C : Rp 110 Billion

90% of net assets acquired by PT A (90% x Rp 110 M) : Rp 99 Billion
 Acquisition cost paid by PT A : Rp 115 Billion
 Difference in value of restructuring transaction under common control : Rp 16 Billion

Journal entries

PT A (In Billion of Rp)		PT B (In Billion of Rp)		PT C
Investment	115	Cash in Bank	115	There is no need journal entry
Cash in Bank	115	Investment	99	
		Gain on disposal of subsidiary	16	
<u>Elimination of Consolidated Journal Entry PT A</u>				
(In Billion of Rp)				
Share capital PT C			100	
Difference in value restructuring transaction under common control			16	
Retained earnings PT C			10	
		Investment PT A in PT C		115
		Minority Interest		11

From the example above, the underlying question then is why PT. A is willing to pay at premium of Rp 115 Billion over the book value of Rp 99 Billion.

Premium should only applied in business transaction which is regulated under SFAS 22, not under SFAS 38. Besides, gain on disposal of subsidiary is subject to tax. The imposition of tax proved that the transaction indeed represents an economic benefit in line with the tax principle.

Moreover, those facts above cause **investors or financial statement's** users to find it difficult to compare similar business combination transaction using different accounting methods.

What's Next ?

Up to now, the IASB is still continuing research on the appropriate accounting method for business combination under common control entities, therefore you need to note that business combination under

common controlled entities are outside the scope of IFRS 3.

The IFRS Interpretation Committee (IFRIC) Update stated that as long as there is no guidance of IFRS regarding business combination under common control, companies may refer to the other guidance issued by other Standard-Setting Bodies, as long as the guidance does not conflict with the IFRS Framework or any other IFRS. *[Maurice Nainggolan]*

A brief outlook of Indonesia's Oil and Gas Industry

Indonesia is the world's fourth most populous nation and a developing economy in transition. It is now consolidating its democratic government and implementing governance and financial reforms. Over recent decades, its resource wealth, openness to trade and investment, and a strategically favorable location in East Asia have made Indonesia a key global exporter of oil and gas.

However, Indonesia now faces the serious challenge of fast-rising domestic energy demand with declining oil and gas production.

The country's energy policy makers are looking closely at domestic energy requirements and best policies to meet these needs. This includes moving prices toward international parity, improving the energy sector investment climate, and developing electricity generation capacity.



The oil and gas industry, both in Indonesia

and globally, has experienced dramatic swings in recent years, Indonesia has been active in the oil and gas sector for more than 125 years after its first oil discovery in North Sumatera in 1885 and

continues to be a significant player in the International oil and gas industry.

New regulations introduced at the end of 2010 were designed to encourage more investments into the sector. There have been some improvements made to the investment climate such as the decision to introduce direct bidding as opposed to tendering blocks and the increase in production splits for companies by up to 25% for oil and 40% for gas.

Laws & Regulations on Oil and Gas

Article 33 of the Indonesian Constitution states that all natural resources must be used for the welfare and benefit of Indonesians. This translates into the government taking a stake in all oil and gas related activities through Production Sharing Contracts.

Law No. 22/2001 governs the activities of the oil and gas sector in Indonesia as well as Law 22/2001 which states that BP Migas is the regulatory body for upstream activities in oil and gas such as exploration and exploitation through Production Sharing Contracts between BP Migas and the company involved which may be state owned, branch of a foreign company or a private local company. BP Migas covers the downstream sector such as processing transport and storage

through joint cooperation contracts which are normally PSCs. Foreign companies with a representative office in the country may engage in both upstream or downstream but cannot be involved in both areas.

The law also states the preference for use of local manpower and expertise in the execution of projects as well as environmental standards that must be met by companies.

Energy Law No. 30/2007 requires **that the country maintains 'energy stockpiles' to mitigate against shortages and heighten energy security.** The law also marked a **shift in the country's attitude** towards energy reserves by establishing the National Energy Council aimed at furthering the exploitation of renewable energy sources and reduce reliance on fossil fuels by 2025.

In accordance with the energy law No. 30/2007 aforementioned provide that Companies engaging in oil and gas activities must be set up as a Permanent Entity and branch of a foreign company.

Setting up as a company domiciled in Indonesia is only available for Indonesian companies and investors. As per the ring fencing principal, business entities may only enter into one PSC and must therefore set up separate bodies to take on further PSCs.

A brief outlook of Indonesia's Oil and Gas Industry (Cont.)

The law also details how dividends may be taken by business entities by allowing the transfer and repatriation of profits. Capital goods imports of machinery and equipment for production purposes, are subject to exemption of VAT while goods for production are subject to exemption or postponement of VAT.

The industry in Indonesia is arguably at an inflection point. Indonesia has moved towards greater democracy and development in regulating the oil and gas industry. These changes were during an era where **Indonesia's production and opportunity profile** has moved

steadily towards oil and gas a trend which ultimately represent a permanent shift. [*Novia Agitha*]

QUOTE OF THE QUARTER :

**“In the middle of difficulty
lies opportunity”**

Albert Einstein (1879- 1955)

Excessive Incoming Emails; how do you deal with it ?

The fast development of communication technology has really changed how people do business. Businesses nowadays are making decision in light speed because information is transferred **with lightning speed called "real time communication"**.

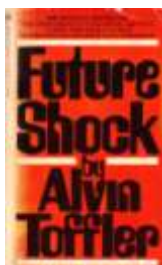
The latest communication technology is capable in delivering information quickly to the decision makers no matter where they are, at home, at the airport, in the car, in the train, in the gym, or in the shopping mall, you name it. Information, as well as a person, can be easily access no matter where you are.

Mass distributions of tons of information are also feed through various communication media such as phone, emails, and various social media network such as facebook, twitter, etc. into our mobile device that we hold in our hand all the time.



There is no doubt that this development has assisted

the business world to make quick business decisions. However, on the other hand, for some business executives, this development has created a nightmare because they have to deal with information overload.



Information overload is a term popularized by Alvin Toffler in his bestselling 1970 book *Future Shock*.

It basically refers to the difficulty a person can have in understanding an issue and in making decisions that can be caused by the presence of too much information.

Nowadays, too many business information are continuously pouring in to our communication device and one of the problem is that we try to react as soon as possible to those information. It is true that in this so called digital era, businessmen are expected to act quickly and to be easily accessible. But it is also true that there is a limit in everything. There is a limit in human capacity. There is a limit in time.

In respect of information overload, especially those received via emails, there is a number of things that can be done to overcome this. First of all, you need to screen and filter the incoming information and check where does it come from, is it urgent, is it business related or personal, etc. Most email clients now provide options for filtering and processing some of your emails automatically, which allow us to go through your emails more quickly.

Most email clients also have options to automatically put incoming mails to specific folder with a threaded view. With this facility you can actually review all emails regarding one subject at once and reduce your time to find related emails one by one.

Once you master the filtering techniques in your device and email clients then the next step will be much easier. The next step after filtering your emails is to quickly skim those emails. When you skim quickly you can decide to response straight away, or put the emails in a **"response in less than 24 hours" folder or maybe in a "for future reading" folder, or any other folder that you can create.**

While skimming you should also combine the skimming activities **with prioritizing. There's a lot of way to prioritize and each individual have different ways and needs.**

A manager in a public accounting firm might treat all **emails from the firm's partners** and from clients as first priority. A marketing executive might prioritize his/her targeted **client's emails as first priority.** A university student might prioritize emails from the university and the professors. One way that helps a lot is the use of color code for incoming email.

Excessive Incoming Emails; how do you deal with it ? (Cont.)

Most email clients now can be set so that certain emails come in different color. So, if you set your first priority emails in red for example, then you can quickly see the red incoming emails among the blacks and go to the red ones first. You can quickly see at a glance which emails should be read right away.



Skimming and prioritizing does not have to be done together with replying. I note some people do their skimming and prioritizing in the middle of traffic jam on their way to the office, and reply to the important emails once they get to the office. Some do it at night before going to bed and do the

replying task the next morning. Probably this is because skimming and

prioritizing has become so easy to do.

At the end of the day, if the above **suggestion doesn't help and you** still have problem with the tremendous number of incoming email then you should consider to delegate the task of replying those email to your subordinates. Remember, management is the art of getting things done through other people. [Irwan Afiff]

BUSINESS TERMS

- **Electronic Data Interchange (EDI):** the process of transferring data between and within companies electronically, instead of by paper. It is similar to electronic mail, except than an agreed-upon format is used for a particular type of document, such as an order form, which allows software to automatically process it and generate subsequent documents.
- **Gantt Chart:** graphical production scheduling method showing the various production stages and how long each stage should take. By charting the production steps through a *Gantt Chart*, the manager is easily able to visualize and schedule production stages.
- **Slump:** drop in economic or productive activity. In popular usage, a slump is not as severe as a recession or depression.
- **Tax Straddle :** technique formerly used to postpone liability for a year. An investor with a short-term capital gain would take a position in a commodities future or option so as to show a short-term **"artificial"** loss in the current tax year and realize a long-term gain the next tax year. Tax reform sharply curtailed this practice by requiring gains and losses on commodity transactions to be reported based on values at year end, even when the positions are not closed out.

News
from our
Office



RSM AAJ Associates Workshop Series – November 23 - 24th, 2011

On 23-24 November 2011, RSM AAJ Associates held a 2-days IFRS workshop about some of the new and important Statement of Financial Accounting Standards which adopt the latest IFRS. The workshop was led by our audit partners and senior managers. 52 participants from different industries attended the workshop. The scope of the workshop covers SFAS 1, 4, 24, 34, 36, 48 and 56 which are considered as important for the preparation of 2011 and 2012 Financial Statements.



RSM International Annual Conference – November 13 - 16th, 2011



This year RSM International Annual Conference was held in Sydney, Australia on mid November 2011. More than 180 Partners from RSM member firms, all over the world, including from RSM AAJ Associates, attended the conference with the aim **of working together to "Make RSM Famous"**. A number prominent outside speakers, including Mr. Paul Keating, ex Prime Minister of Australia, share some of their knowledge and experience with the conference participants.

Asia Pacific Entrepreneurship Awards 2011 – December 14th, 2011

For the third time, RSM AAJ Associates appointed to be the Official Accountant in the Asia Pacific Entrepreneurship Awards 2011 (APEA) event. The highlight of the event, held at JW Marriott Hotel in Jakarta, was the gala dinner and the announcement of the Entrepreneur of the Year. In addition to the approximately 30 nominees, the event also attended by representatives from the Ministry of Industry, the Indonesian Chamber of Commerce and Industry (KADIN), the Indonesian Business Women's Association (IWAPI), as well as other prominent guests from Indonesia.



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HAPPY NEW YEAR 2012

