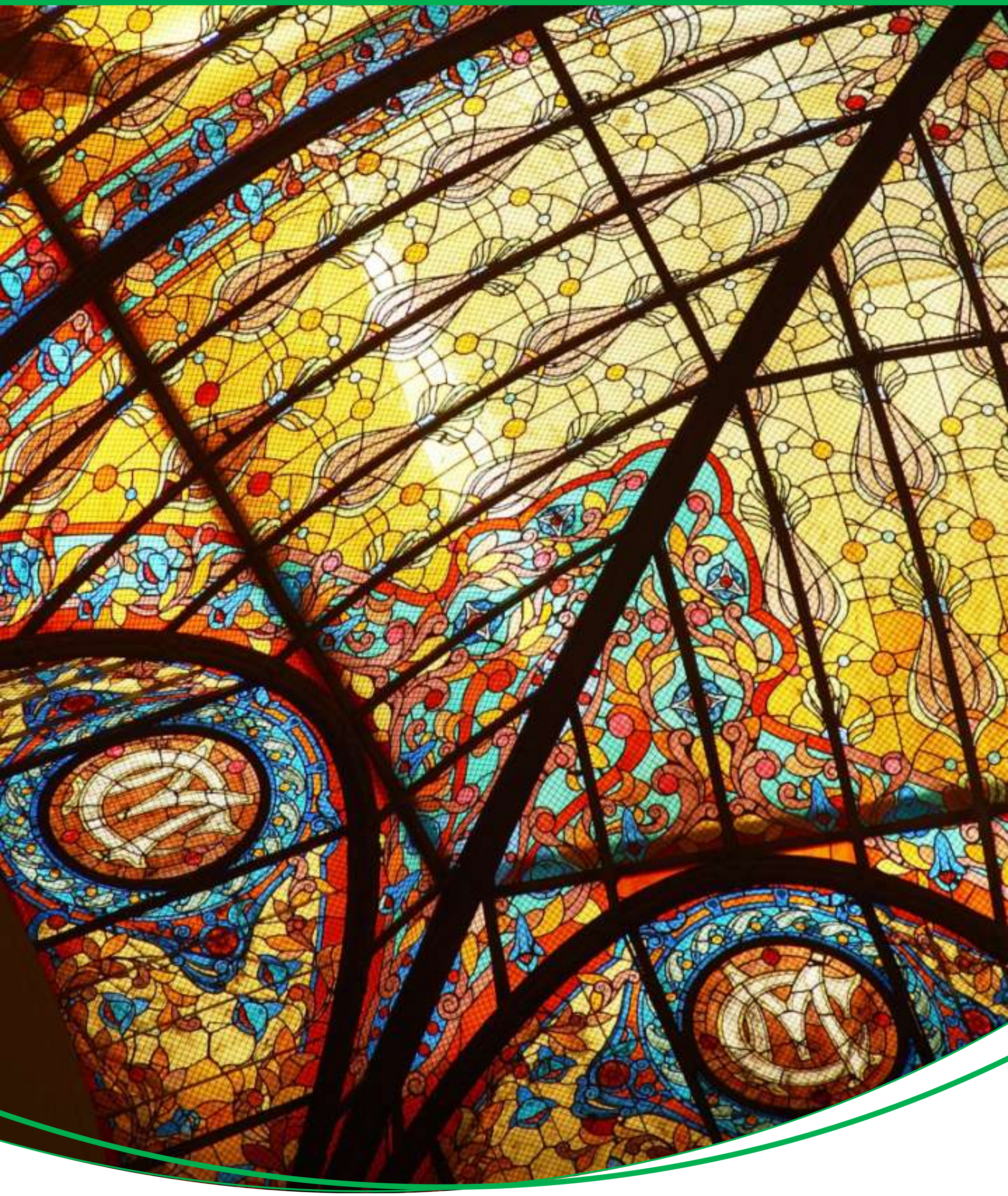


A Newsletter of RSM AAJ Associates

Wake up Call

RSM AAJ
Audit • Tax • Advisory

Quarter II – 2013 Edition

Contents

QUOTE OF THE QUARTER :

"All glory comes from daring to begin"

William Shakespeare (1908- 2002)

Message from the Editor

Dear Readers,

With big pleasure we welcome you to our Quarter 2 Wake Up Call publication and wish you all a healthy and prosperous time.

March and April are always special to our office. It is the time when people in our office work endlessly to finalize and complete the 2012 audit work and also the 2012 tax return work. Long working hours and short sleeping hours are continuous for most people in the office during this time. Every year we face this "peak season" and it seems like every year we go through it better than the period before. More audits and tax return works were recorded this year, and we manage to do it in a more efficient way. Yes, the economy is growing at a relatively high rate and fast growing business activities all over Indonesia are very clear to see. Indonesia at the moment is enjoying a good time from the economic perspective.

In February our firm held a client gathering event featuring two prominent speakers, Mr. Chatib Basri (Chairman of the Indonesian Investment Coordinating Board) and Mr. Faisal Basri (one of the top economist and researcher in Indonesia) who share their thoughts about the Indonesian economy. Indeed Indonesia is moving to become one of the best place of investment in the world. Both speakers said the opportunity for Indonesia to move to the top in GDP growth is very high. Let's hope we can really capitalize this for the good of the people.

This edition of Wake Up Call features interesting articles written by our Partners in the firm which relates to a new regulation on tax audit, and also an update on PSAK 38 (Revised 2012). There is also a nice article discussing about how the new "IFRS-Based" accounting standards affected companies in Indonesia. Also, we hope you take time to read the News from our Office section which briefly give you some important update of our office's activities.

We hope you enjoy this edition of Wake Up Call and get a lot of value out of it. Thank you.

Best Regards,

The Editor

Business Combination under Common Control Entities : What Changes in PSAK 38 (Revised 2012)?

In Wake Up Call Quarter I - 2012 Edition, we have explained about the implementation of PSAK 38 (2004) in Indonesia. In September 2012, Indonesian Financial Accounting Standards Board has issued PSAK 38 (Revised 2012) and shall be applied for annual reporting period beginning on or after 1 January 2013.

The following are some significant points of PSAK 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 caracteristics 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.

* Typically the following transactions are covered under PSAK 38 **"Business Combination Under Common Control Entities" :**

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

What are the main changes?

• Under PSAK 38 (R 2012), the scope of transaction is limited only in business combination under common control transaction. Some transactions under PSAK 38 (2004) which were eligible to business combination such as transfer of fixed assets and liabilites, shall not be covered any more by PSAK 38 (R 2012).

• The entity in which receiving a new business from another party under common control should record the transactions using the pooling interest method.

• **The entity in which divesting it's** ownership to another party under common control should record the transactions using the disposal method.

• The difference between book value and transfer price would be **recorded in "additional paid-in capital" account (either the** receiving and divesting entity) that were previously recorded in difference in value restructuring transactions between entities **under common control".**

• It should be no reclassification from equity to profit and loss or retained earnings, even though the common control is no longer exist, including the underlying transaction under common control was divested to another entity was not under common control.

To describe the changes mentioned above, please take a look at the example below. We hope you find it useful.

PT A and PT B are entities under common control. Net assets of PT A and PT B as of December 31, 2012 are as follows :

(stated in USD)

Description	A	B
	Dec 31, 2012	**Dec 31, 2012**
Share Captial	12,500,000	10,000,000
Difference in value restructuring transactions between entities under common control	4,000,000	--
Retained Earnings	30,000,000	25,000,000
Total	**46,500,000**	

Business Combination under Common Control Entities : What Changes in PSAK 38 (Revised 2012)? (Cont.)

PT A acquired PT B on January 1, 2013 with transfer value of USD 39,000,000.

ALTERNATIVE 1

- PT A presented a restatement in 2012 figures, which is share capital and difference in value restructuring transactions between entities under common control PT B combined into paid in capital PT A (10,000,000 + 4,000,000 = 14,000,000).
- Retained earnings PT B combined into retained earnings PT A (25,000,000 + 30,000,000 = 55,000,000)
- At Jan 1, 2013, paid in capital PT AB = 11,000,000.

It was derived from transfer value (39,000,000) deducted by book value (32,000,000) equal to 7,000,000 added into difference in value restructuring transactions between entities under common control (4,000,000) = USD 11,000,000.

(stated in USD)

Description	A	B	A (Combined)	
	Dec 31, 2012	Dec 31, 2012	Jan 1, 2013	Dec 31, 2012 (As Restated)
Share Captial	12,500,000	10,000,000	12,500,000	12,500,000
Difference in value restructuring transactions between entities under common control	4,000,000	--	--	--
Additional Paid in Capital	--		11,000,000	14,000,000
Retained Earnings	30,000,000	25,000,000	35,000,000	55,000,000
Total	**46,500,000**	**35,000,000**	**58,500,000**	**81,500,000**

ALTERNATIVE 2

- PT A presented a restatement in 2012 figures, which is share capital and difference in value restructuring transactions between entities under between entities under common control and retained earnings PT B combined and presentes as "merging entities" account which is USD 35,000,000.
- At Jan 1, 2013, paid in capital PT AB = 11,000,000. Same as alternative 1.

(stated in USD)

Description	A	B	A (Combined)	
	Dec 31, 2012	Dec 31, 2012	Jan 1, 2013	Dec 31, 2012 (As Restated)
Share Captial	12,500,000	10,000,000	12,500,000	12,500,000
Difference in value restructuring transactions between entities under common control	4,000,000	--	--	--
Additional Paid in Capital	--		11,000,000	14,000,000
Merging Entities Equity	--	--	--	35,000,000
Retained Earnings	30,000,000	25,000,000	35,000,000	55,000,000
Total	**46,500,000**	**35,000,000**	**58,500,000**	**81,500,000**

[*Maurice G.Nainggolan*]

The Effect of the New IFRS-based PSAK in 2012 : A Quick Observations on Listed Companies

As we all know, the International Financial Reporting Standards (IFRS) have been adopted in Indonesia since last year. As of January 1, 2012 all IFRS (as issued by IASB up to January 1, 2009) have been converged into "Pernyataan Standar Akuntansi Keuangan (PSAKs)", **except for IFRS 1 "First Time Adoption of IFRS", IAS 41 "Agriculture", and IFRIC 15 "Agreements for the Construction of Real Estate".** The Indonesian Financial Accounting Standards Boards (DSAK) released information that there are 40 standards, 20 interpretations, and 11 revocations that were published by the Indonesian Institute of Accountants (IIA) as of that date. All standards (PSAKs), interpretations (ISAKs), and revocations were gradually effective in 2009 - 2012. In addition, most recently, revocation of PSAK 51 on the quasi reorganization and revision of PSAK 38 on business combination under common control are effectively applicable on January 1, 2013.

Now, let's see how this new "IFRS-Based PSAKs" have affected Indonesian public **companies' Financial Statements.** Summarized below are some facts obtained from a quick observation on the 2012 audited financial statements of Indonesian public companies. How many financial statements been restated in 2012?

- The Indonesian Stock Exchange (IDX) released information that as of April 1, 2013, there are 52 out of 467 listed companies that have not submitted their 2012 audited financial statements.
- We made a quick observation and noted that those companies made disclosures regarding restatements of the comparative financial statements (e.g. for year ended December 31, 2011). We counted that there were 155 out of 408 audited financial statements (38%) have been restated.
- The remaining audited financial statements of the listed companies (253 companies) have not been significantly impacted by the adoption of PSAKs/ISAKs which were applicable since January 1, 2012. The companies reported that they have already adopted those new PSAKs/ISAKs in 2012 where the implementation of certain standards and/or interpretations which are on prospective basis. This means that, no restatement is required by the standards.

A further observation found that the cause of restatements in 2012 was dominated by very specific standard, which can be seen below :

Causes of restatements	# of Listed Companies
PSAK 10 (Revised 2010) on the Effects of Changes in Foreign Exchange Rates	48
Not specifically referred to PSAKs, but mentioned general statement that the company adopted certain PSAKs that are applicable starting from January 1, 2012	39
Rule No.VIII.G.7 of BAPEPAM-LK on the Guidelines of Financial Statement Presentation and Disclosures of the Issuers or Public Entities	36
PSAK 28 (Revised 2012) on the Accounting for Loss Insurance Contract and PSAK 62 on Insurance Contract	11
Revocation of PSAK 44 on the Accounting for Real Estate Development Activities	9
PSAK 38 (Revised 2004) on the Accounting Restructuring of Entities Under Common Control [note: subsequently, this standard is revised in 2012 to be effective on January 1, 2013]	8
ISAK 16 and 22 on the Concession Rights including the Disclosures	2
Others (accounting treatment on business combination and investment in associates)	2
Total	**155**

The Effect of the New IFRS-based PSAK in 2012 : A Quick Observations on Listed Companies (Cont.)

Now, let's take a quick snapshot on how these "IFRS-based PSAKs" caused the restatements and/or adjustments to current year financial statements as such standards are applied on retrospective basis, starting January 1, 2012.

A. PSAK 10 (Revised 2010)

The revised standard provides indicators in determining an **entity's functional currency** where the entity has to make an assessment on it. When for instance, an entity determined **that its' functional currency is** the USD and previously the entity maintained its books and records in Rupiah, which is not its functional currency, then the entity has to re-measure its accounts from Rupiah into USD to produce the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency (and the financial statements to be restated). This standard is applied on retrospective basis.

B. Revocation of PSAK (PPSAK) No.7 "Revocation of PSAK 44"

In connection with the Revocation of PSAK 44 **"Accounting for Real Estate Development Activities", an** entity has to present assets and liabilities based on current and noncurrent assets and short term and long term liabilities as a separate classification in the statement of financial position.

Prior to the revocation of PSAK 44, statement of financial position has been presented **using "the unclassified method".** As a consequence, for comparative purposes, the statements of financial position as of December 31, 2011 and January 2011 have to be restated in 2012. The revocation of those paragraphs of PSAK 44 is effective for financial statements starting on or after January 1, 2012.

In addition, revocation of paragraphs 1-46, 49-55, and 62-64 of PSAK 44 was intended to be effective for financial statements starting on or after January 1, 2013, but the implementation was, then, postponed until a date which will be determined later.

C. ISAK 16: Service Concession Arrangement and ISAK 22: Service Concession Arrangement: Disclosures

ISAK 16 gives guidance on the accounting by operators for public-to-private service concession arrangements; which applies if the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement. Both ISAKs do not specify the accounting by grantors.

D. PSAK No. 28 (Revised 2012): Accounting for Loss Insurance Contracts and PSAK 62: Insurance Contract

PSAK 28 requires recognition of premium income for short term as well as long term insurance contract. PSAK No. 62 regulates on recognition and measurement of insurance contract and requirement to perform liability adequacy testing and also testing on reinsurance asset impairment. The impact are: at the end of reporting period, company should assess whether its recognized insurance contract liabilities are adequate, using current estimates of future cash flows under its insurance contract. If the assessment shows that the carrying amount of its insurance contract liabilities is inadequate, the entire deficiency shall be recognized in profit and loss. The company has to disclose the amount of reinsurance asset. Both standards are applied on retrospective basis.

In mid 2012, BAPEPAM-LK issued Regulation No.VIII.G.7 regarding the Guidelines of Financial Statements Presentation and Disclosures for Issuers or Public Companies. Several public companies have made reclassifications on certain accounts in the statements of financial position as of December 31, 2011 and January 1, 2011/

The Effect of the New IFRS-based PSAK in 2012 : A Quick Observations on Listed Companies (Cont.)

December 31, 2010 to comply with these requirements. The **VIII.G.7's requirements are more** stringent than PSAKs in certain areas. For instance, in related parties matters, BAPEPAM-LK added definition of entity which has relation with government as **"entity controlled, jointly** controlled, or significantly **influenced by the government". Also, "government" is defined as** the Ministry of Finance or the Local Government who is the shareholder of such entity. Those definitions are not provided by the PSAK 7 (Revised 2010): Related Party Disclosures. There are many other provisions of this Regulation where the implementation requires comparative financial statements to be reclassified to conform with the current presentation and disclosure of the financial statements.

In general, the analysis suggests that the IFRS Convergence program has affected companies in terms of preparing financial statements on time and this is mainly related to the restatement of their financial statements. A more important question will be to ask if the IFRS Convergence program has actually affected the financial performance of the companies (i.e. the profitability or the size of assets). Although the most likely answer is yes, it will require a more thorough study to get the real picture.

The IFRS convergence process, at the moment is still continuing in 2013 and beyond. This is mainly because there are still some differences between PSAKs and IFRSs. The reason for this is since there were new IFRSs/IFRICs issued during the period of January 1, 2009 to January 1, 2013. Although, DSAK **believes it is only a "minor difference", there may be more** amendments and/or revisions to the existing PSAKs/ISAKs. [*Saptoto Agustomo*]

Tax Audit : Welcome to the New Regulation

Benjamin Franklin, American founding father said that there are only two things are certain in life. Death and Taxes. Although said in the negative way, there is also an ancient saying that nobody enjoys paying taxes. But, after crossing the river of time, the tax system has change into more democratic and transparent system .. In the tax system adopted by Indonesia, there is what's called the self assessment's system which is considered as fair and easy. . The sytem granting the taxpayer a right to calculatee, pay, and report their own return to the state. As the counterweight to the system, the government who is represented by the tax authorityy is authorized to conduct a tax audit. Therefore, a tax audit is actually part of the system that can not be avoided by a taxpayer. So it is clear that it is better to be prepared for a tax audit and stop thinking about how to avoid a tax audit. The best possible way to face the audit is by having a better understanding on the prevailing tax regulation.

The New Audit Regulation

To make sure that taxpayers are treated fairly and for the sake of justice, a lot of changes has been made in the last 5 years in respect of tax audit regulations. This year, the Government issue the Minister of Finance Regulation No. 17/2013 in early year 2013 which replace previous regulation No. 82/2011 and No. 199/2007 regarding the Procedure of Tax Audit. It seems the new regulation was intended to balance the right and obligation of the taxpayer by giving the more certain procedures by elaboratinexplicitly the decalration of the rights of the taxpayer which guaranteed by the law and ensuring the Quality Assurance *(new group of tax officer to re-assess the dispute)* mechanism to mediate the dispute amongs the taxpayer and the tax officer during audit process.

Some of the important points of the new regulation above are as follows :

1. The Purpose of Tax Audit

There are no changes on the description for the purpose of doing the tax audit on the new regulation. The new regulation just underlines the need to analyze the risk prior to the tax audit. It seems that the Directorate General of Taxes (DGT) wants to give a guarantee that there will be no tax audit without certain reasons and procedures.

2. The Scope of Audit

The audit scope is related to the obligation of the taxpayer to submit their tax return. The scope is being divided into two items i.e. (i) tax audit that covers one or several fiscal period for testing the withholding compliance including VAT, Income Tax Article 4 (2), Article 21, 22, 23/26 and (ii) tax audit that covers part or full fiscal year for testing the corporate or individual income tax.

3. The Criteria of Audit

The criteria of tax audit are known as the reason or the basis to conduct an audit process. Basically, the criteria is divided into routine audit and special audit. Routine tax audit is usually done in relation to tax refund, tax return with loss status, taxpayers who is doing a merger, consolidation, liquidation, changes of the bookkeeping period, changes of bookkeeping method, asset revaluation, or preliminary refund of the tax overpaid. Meanwhile, special audit is usually based on risk analysis made by the tax office.

4. The Type of Audit

There are two type of tax audit i.e. ooffice audit and ffield audit, where the difference is focusing on the location of the audit process. The office audit is designed more for a narrow scope of audit, less risk and can be conducted in the Tax Office's premises. A field tax audit is conducted in the taxpayer's premises. Audit for tax refund should be done through an office audit, but only if it's meets some criteria, such as (i) the taxpayer's

Tax Audit : Welcome to the New Regulation (Cont.)

financial statements are audited for the fiscal audited year and a year before with an unqualified opinion, (ii) the taxpayer is not under eexamination, investigation, or prosecution of tax offenses, and/or the taxpayer within five years that has never been convicted of criminal offenses in the field of taxation.

5. The Period of Audit

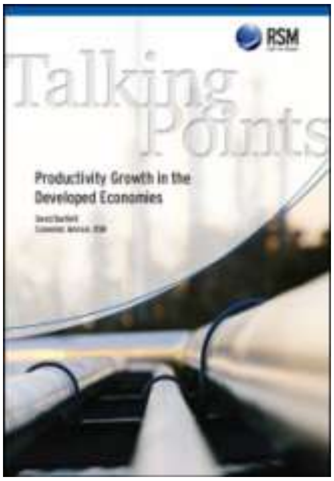
The new regulation also suggest a more clear aspect of the time of which the audit process take place. Under the new regulation there is a clear cut of two stages of the audit which is the examination phase that can only be up to 6 months and the closing conference phase that must be completed within 2 months. This changes provide taxpayers with more certainty and fairness in respect of the time provided to challenge and discuss the results of the examination during the tax audit.

6. Completion of the Tax Audit

The new item in this regulation are the obligation of the tax auditor to send the closing conference notification letter and giving the taxpayer the right to attend the closing conference. If, for some reason, the taxpayer disagrees with the result of the audit, then they have the right to ask for a Quality Assurance team to re-discuss the material being disagreed.

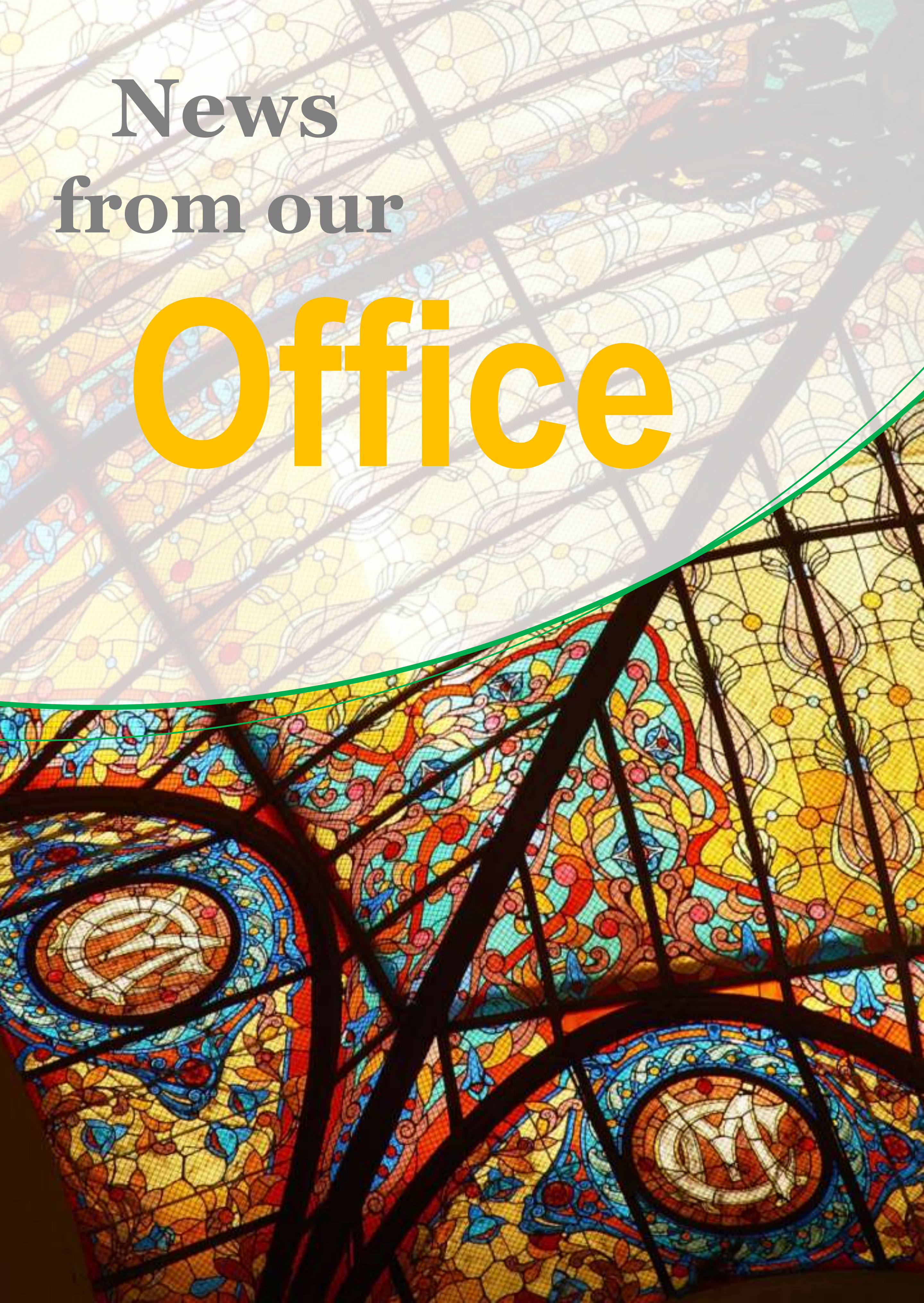
In Summary

Apart from the various technical considerations, this new regulation should be welcomed by all taxpayers. Because the spirit of this regulation is to give a more balanced approach and provide fairness to taxpayers. Although it's true that a tax audit decision can easily cause panic to taxpayer, perhaps with this new regulation, now taxpayer can look at a tax audit in a more positive way. Hopefully with this new regulation there are more legal certainty about our tax obligations. Furthermore, one thing to remember is that during the examination, the tax payer have the rights that is guaranteed by the law. If we have not made any deliberate mistakes, a tax audit is a positive challenge for us, the taxpayer, to measure our self assesment of doing the return. Finally, it is deemed necessary for any taxpayer to prepare a thorough overview of the business process, especially the tax side, on a regular basis. to avoid any administration sanction and/or penalty that can effect the business. [*Yustinus Prastowo*]



The new "Talking Points" publication are now available in our website

News from our Office



RSM AAJ Client Gathering Event

RSM AAJ held a client gathering event on February 13th, 2013 with more than 70 participants attending the event. The event was held in an **"afternoon tea"** format so that our client and network can chat and get to know each other better in a relaxing manner. The event also featured two well known

guest speakers, Chatib Basri (Chairman of the Indonesian Investment Coordinating Board) and Faisal Basri (a distinguish top economist and researcher in Indonesia). The two Basri give their insight about the Indonesian economy in the last couple of years and the outlook for the future which was very promising.

Days at the Campus

As part of RSM **AAJ's** commitment to recruit and to develop our team of staff, our firm has participated in the BINUS University Networking Day (February 2013) and the Atmajaya University Job Fair (March 2013). Approximately 200 students (in both event) has shown interest on our firm, and we have manage to get in touch with them during the firm presentation session. A good number of the students also drop their resumes in our booth for further hiring process.

Asia Pacific Entrepreneurship Awards 2013

RSM AAJ Associates, for the 4th consecutive years, has been appointed as the official accountant in the Asia Pacific Entrepreneurship Award (APEA). There were 19 winners chosen in various categories including Entrepreneur of the Year 2013, Young Entrepreneur of the Year 2013, Outstanding Entrepreneurship Awards and Most Promising Awards.

The peak of the event was the Gala Dinner held at JW Mariott Hotel in Jakarta, where the award winners were announced. The gala dinner was attended by government officials, businessmen, and also distinguished guests from various embassy in Jakarta.

RSM Received Editor's Special Award at IAB Awards

RSM has collected the prestigious Editor's Special Award for GLOBAL INITIATIVE OF THE YEAR at the International Accounting Bulletin annual awards. The awards ceremony was held at the headquarters of the Institute of Chartered Accountants in England and Wales in London on 14th March 2013.

The Editor's Special Award was conceived specifically to recognise the outstanding achievement of the RSM network for its global initiative - RSM World Day – which was praised for being a unique and powerful cross-network initiative that enhanced both employee and client engagement.

The judges unanimously agreed that RSM World Day deserved extra-special recognition and were immensely impressed with the scope and achievements of the campaign. They highlighted it as a shining example of how to successfully connect independent member firms in 70 countries under a common vision and set of values.

The new "Border Crossing" and "RSM Reporting" publication are now available in our website

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