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A Newsletter of RSM AAJ Associates

Wake up Call

Quarter III – 2012 Edition

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QUOTE OF THE QUARTER:

“A stumbling block to the pessimist is a stepping stone to the optimist”

Eleanor Roosevelt (1884- 1962)

Message from the Editor

Dear Colleagues,

We are now coming into the second half of the 2012. For our Firm, this is an occasion for planning the next busy season which normally begin in the 4th quarter of the year. Preparing business plan, hiring and training new staff, and also selling activities are normally high during this period. In June, our board of management had an annual meeting for two days to set the Firm's annual business plan. Our partners also went to the RSM International regional conference in Hong Kong last May. In June some of our Partners also involved as instructor and participants at the RSM Academy in The Netherlands.

Indonesia's economic statistical values have been so assuring in the first semester of 2012 and our economy is presently considered as one of the successful achievers this year. So we expect these statistical values mirror a genuine growth in the people's economic well-being. For companies in Indonesia obviously this is a mark to increase and enlarge.

This edition of Wake Up Call features information about Refreshment on Revenue Recognition for Real Estate Activities under ISAK 21; Handling Organizational Conflict; and also about Land Regulations - Part 1. We do hope you get a lot of value out of those articles. Also, we hope you take time to read the News from our Office section which briefly give you some interesting update of our **office's** activities.

Finally, we are now coming into the holy RAMADHAN month, we would like to sincerely wish those the Moslems "SELAMAT MENJALANKAN IBADAH PUASA RAMADHAN".

Regards,

Refreshment on Revenue Recognition for Real Estate Activities under ISAK 21

Background:

Following the IFRS adoption program and also the repeal of other PSAKs for specific industries, PSAK 44, "Accounting for Real Estate Activities" will be revoke effectively as at 1 January 2013. As a replacement, the Indonesian Institute of Accountants (IAI) has published ISAK 21 "Real Estate Construction Agreement" which fully adopted from IFRIC 15. The main issue addressed by ISAK 21 is the consistency of revenue recognition in real estate activities. It is common practice that real estate developers start "selling" real estate well before the construction process begins (off plan). This "selling" activity usually continues during the construction period. Typically, a buyer pays a deposit to the real estate developer and the deposit is only refundable if it fails to deliver the completed unit in accordance with the contracted terms. The accounting treatment for such transaction often varies, especially when it comes to revenue recognition. For such transaction, some real estate developers recognize revenue as construction progress by reference to the stage of completion of the development, while others recognize revenue only when the estate is

completed and handed over to the customer.

When the exposure draft of ISAK 21 was published, the central of attraction is about how the revenue recognition treatment will be different from the previous PSAK 44. Also there was question about what accounting treatment should be used if the contract is prior to January 2013 while the real estate is completed after January 2013. Fundamental Change: Under the new ISAK 21, revenue recognition is not determined by the three method described in the previous PSAK 44, but rather, it is based on the substance of the construction agreement. So this mean it will depends on the terms in the agreement and all the surrounding circumstances. Of course, this will require good judgment on the agreements.

ISAK 21 stipulates that an entity must assess whether the construction agreement with a buyer of real estate is a sale of goods or services or a construction contract. If it is a sales of goods or services, then it should refer to PSAK 23 - Revenue. If it is a construction contract then it should refer to PSAK 34 - Constructions Contract

So when a customer acquire a house or an apartment is he or she entering a construction contract or is it a simple agreement to buy ? Sometime within a single agreement there are both, construction contract component and sale/buy transactions component. Now, with the ISAK 21 become effective, this component must be identified and separated. Once we can indentify this then we can allocate the fair value and determine how much should be recorded in the scope of PSAK 23 and how much should be in the PSAK 34 scope.

The following definition can help us in defining a "construction contract" :

An agreement meets the definition of a construction contract when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether or not it exercises that ability).



Refreshment on Revenue Recognition for Real Estate Activities under ISAK 21 (Cont.)

So here's the conclusion.

1. **Agreement is a Construction Contract**

When an agreement is within the scope of Construction Contract and its outcome can be estimated reliably, then Revenue should be recognized using the stage of completion of the contract activity in accordance to PSAK34 (revised 2010).

percentage of completion method, provided that criteria in paragraph 19 PSAK 23 are met.

3. **The agreement is an agreement for the sale of goods**

If the Developer provides services together with construction materials in order to perform its contractual obligation to deliver the real estate to a buyer, then the agreement is an agreement for the sale of

2) **The agreement is an agreement for the rendering of services**

If the Real Estate Developer is not required to acquire and supply construction materials, the agreement may be only an agreement for the rendering of services. In this case, revenue should be recognized by reference to the stage of completion of the transaction using the

goods and the criteria for revenue recognition as set out in

paragraph 13 of PSAK 23 applies. In this case, when transfer of control, benefit, and risk of

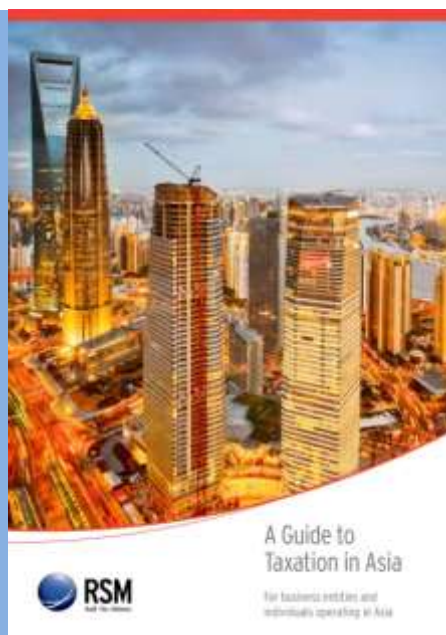
ownership is made to the buyer in the middle of construction, then revenue shall be recognized by using the percentage completion method. If the such transfer is made after the construction is completed then revenue should be recognized as sales of goods.

The ISAK 21 is effective on 1 January 2013 and this should be applied prospectively. In situation where Developers have on-going construction contract then they should do an assessment at the beginning of January 2013 and adjust any differences arising from adopting ISAK 21. All differences are to be credited or debited to the beginning balance of Retained Earning account.

[Leknor Joni]



The new "A Guide to Taxation in Asia" publication is now available in our website



Handling Organizational Conflict

Sooner or later every manager or leader finds himself involved either directly or indirectly in some form of organizational conflict. Throughout human history the improper handling of conflicts has destroyed marriages and friendships, dissolved business partnerships and corporations, caused the downfall of great leaders and political empires, and sparked wars. It is clear then that conflict is a potentially dangerous phenomenon capable of destroying the effectiveness of any organization or leader.

Defining Organizational Conflict

Conflict can be defined as open and hostile opposition occurring as a result of differing viewpoints. Conflict should not be confused with disagreement. It is possible to have disagreement without hostility. But conflict always involves hostility.

No area of an organization is immune from potential conflict. Open and hostile opposition may develop between individuals,

divisions, levels of management and geographic locations. Unresolved conflict can lead to the destruction of successful

corporations and of close friendships.



The Source of All Organizational Conflict

Conflict comes from our own selfish desires and passions. In a conflict the emphasis is always on self. We focus on "me" and "mine" ---my ideas, my rights and my feelings.

In a conflict our conversation is saturated with statements that promote, protect and draw attention to ourselves. The objective is almost always to impose our ideas, beliefs, desires and opinions on others.

The Negative Results of Conflict

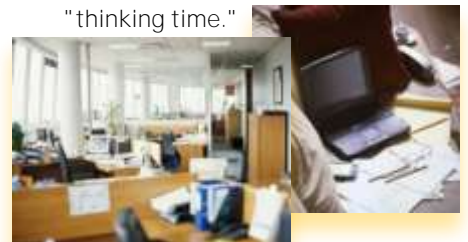
Conflict causes us to fabricate and magnify faults and weaknesses in others. In the midst of conflict, we seek to justify our position and win the dispute. We are convinced our position is correct; therefore, the other person's position must be wrong. As we set out to "prove" our case, we do so by discrediting the other person's views.

Unfortunately, it is almost impossible to limit negative

feelings and thoughts toward others to the issues of the conflict. Instead, we look at other areas of the person's life for additional faults and weaknesses that add support to our feelings and opinions.

When the issues of the conflict are not kept in focus, we attack the person. This usually results in serious damage to relationships and organizational productivity. Conflict creates divisions within the organization. Unresolved conflict is the cause of every company split, labor strike and divorce. Division tears both large organizations and individual relationships apart and finally destroys them.

Conflict causes us to expend our energies on nonproductive activities. Conflict is very detrimental to organizational productivity. Conflict leaves people physically and emotionally drained and consumes a great deal of our "thinking time."



The Positive Aspects of Disagreement

Conflict always involves hostility. But it is possible to have disagreement without any ill will. In fact, disagreement can be beneficial.

Disagreement can lead to individual and organizational growth. As the ensuing figure illustrates, disagreement can lead

Handling Organizational Conflict (Cont.)

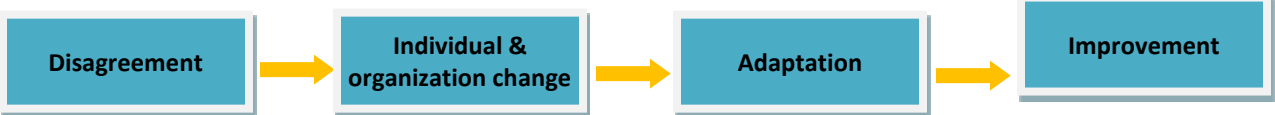
to individual and organizational changes which ultimately produce improvements. People and organizations grow, develop and improve by learning to work through disagreements using proper methods of confrontation.

learns to avoid developing a critical attitude even when others are critical and hostile toward him.

As the leader becomes more tolerant of opposing views, he develops a greater capacity to accept criticism without

avoid a conflict than trying to face the issues and resolve them.

Attempting to avoid conflict by retreating from it. Many leaders tend to run from an existing conflict. There are many ways to do this. Most attempts take the form of procrastination. The



Disagreement can ultimately lead to personal and organizational improvements.

Disagreement can reveal the need for change. The mature leader or manager welcomes disagreement because it forces him to evaluate his own beliefs and to make positive changes where needed. The intelligent man is always open to new ideas; in fact, he looks for them.

By contrast, the immature leader is defensive, resentful and hostile when his ideas or opinions are challenged. As a result, the immature leader frequently allows disagreements to erupt into conflicts.

Disagreement can help make us more tolerant of opposing views. Disagreement can be an excellent teacher of tolerance. Learning to accept differing viewpoints without developing hostile reactions is another mark of the mature leader. The effective manager learns to "agree to disagree." He also

retaliating. Don't refuse to accept criticism; get all the help you can. Unfortunately, most of us don't view criticism as a help, but as a hindrance.

Methods of Dealing with Conflict

There are four basic approaches to dealing with organizational conflict:

- Attempting to avoid conflict by retreating from it.
- Attempting to avoid conflict by circumventing the major issues and focusing on minor points.
- Attempting to avoid conflict by dealing with side issues.
- Identifying the real issues of the conflict and working our way through them to a satisfactory resolution.

Notice that three of these approaches focus on attempting to avoid the real problem. Unfortunately, many managers spend more time attempting to

leader simply delays dealing with the problem. Once a conflict develops, it can never be solved by retreating or avoiding the issues involved. In fact, the longer we avoid dealing with the conflict, the worse it becomes.

Attempting to avoid conflict by dealing with the minor issues involved and circumventing the real ones. Some managers and leaders approach a conflict by talking their way around the important issues and dealing only with the minor ones. As long as we limit our focus to the minor points of the conflict, there is no chance for resolution. We must be willing to honestly state the real issues involved.

Attempting to avoid conflict by dealing with side issues. This is one of the most dangerous methods of trying to deal with conflict because it almost

Handling Organizational Conflict (Cont.)

always creates additional problems. Dealing with side issues is usually an attempt to divert attention away from the conflict. However, it frequently leads to additional conflicts because the hostility associated with the conflict creates a climate of confusion and misunderstanding in any communication or discussion.

Identify the real issues of the conflict and work your way through them to a satisfactory resolution. The only way to resolve a conflict is to approach it head on, identify the issues involved, and work your way through them.

In dealing with conflict we must be willing to be honest with the others involved and clearly state the real issues. We must also be willing to ask for forgiveness for the hostility we feel toward the other persons. And we must be willing to trust the others involved to make decisions that will be in the best interests of everyone concerned with the conflict. We should never procrastinate in dealing with a conflict. As long as conflict exists we are harboring hostility toward others.

The Approach to Handle Confrontation

Many leaders and managers are afraid to deal with conflict because it involves confrontation. However, by confrontation, we don't mean dispute. Anyone can get involved in a dispute or an argument, but it takes a mature person to handle confrontation properly. The following is a step-by-step process of handling confrontation successfully.

First, make sure you are dealing with facts, not guesses or hearsay. We must make sure we are operating on facts, not hearsay or opinion. This is the first and most important principle of confrontation. Operating on hearsay or assumptions usually insures failure when trying to deal with conflict. Unless the confrontation focuses on facts, it degenerates to one opinion versus another.

Second, always make the initial confrontation in private between you and the person involved. Every effort should be made to resolve the conflict in private with those involved. Many leaders make the mistake of publicly criticizing others involved in a conflict. This only compounds the problems and under mine's people's trust.

Third, when you try to resolve the conflict privately, if the other person involved refuses to resolve the problem, take someone with you and try again. This is an important principle of confrontation. Involve others only after you are convinced the other person refuses to listen to you. At this point, outside help in resolving the conflict does two things. First, it allows a neutral party to provide input into resolving the problem. Secondly, it gives evidence to others that you are honestly trying to resolve the problem.

Fourth, if the person continues to resist resolving the conflict, you may need to dissolve the relationship. Once we have done everything in our power to resolve the problem but the other person refuses to cooperate in correcting the situation, the relationship should be terminated.

On the other hand, as long as the other person is willing to repent and correct the problem, you are obligated to forgive and continue the relationship---no matter how often conflicts continue to occur. Conflict should be avoided whenever possible, but when it exists it should not be ignored. We should confront those involved with the facts and privately work at resolving the problem.

Handling Organizational Conflict (Cont.)

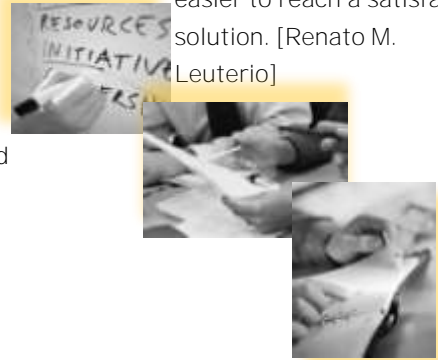
When dealing with confrontation, keep the following points in mind:

1. A conflict provides an excellent opportunity to serve others. Be sensitive to the needs of others instead of demanding your own way. When doing good costs us nothing, we are more than willing to do it. But the more it costs, the more we resist. A conflict provides

an excellent opportunity to do good to others.

2. Be committed to resolving the conflict quickly. The longer the conflict continues, the more difficult it is to resolve.
3. Take the initiative in confronting those involved. Don't wait for them to come to you.
4. Even though hostility and anger are present in conflict, avoid angry arguments. If we display

anger during a confrontation, we stimulate anger in others. On the other hand, if we control our emotions during the confrontation, we ease the tension and anger in those involved. This will make it easier to reach a satisfactory solution. [Renato M. Leuterio]



ACCOUNTING TERMS

- **Cost Behavior Analysis** : separating mixed costs into their variable and fixed elements. Mixed costs are common to a wide range of firms. Examples of mixed costs include sales compensation, repairs and maintenance, and factory overhead in general. Mixed costs must be separated into the variable and fixed elements in order to be included in a variety of business planning analysis such as Cost-Volume-Profit (CVP) Analysis.
- **Floating Capital** : net working capital or that part of capital that is invested in current assets of the organization (net of current liabilities) as opposed to its fixed or other capital assets.
- **Kanban** : the Japanese word for card. It is a production system originating from the use of cards to indicate a work **station's** need for additional parts.
- **Lien** : right of a party, typically a creditor, to hold, keep possession of, or control the property of another to satisfy a debt, duty, or liability. A mortgage would create such a security interest or lien upon property in the event of default.
- **Skimming Pricing** : strategy used when a new product is introduced. It involves setting a high initial price primarily to recoup research and development investments; the price is progressively lowered as time passes and competition sets in. The objective is to maximize short-term profits.

LAND REGULATIONS - Part 1

LAND OWNERSHIP REGULATIONS and ITS ACCOUNTING

The absolute ownership of land in Indonesia is limited by Constitution Act 1945 and principally regulated by the Basic Agrarian Law No.5/1960. The Basic Agrarian Law and its implementing regulations, including Government Regulation (GR) No.40/1996 regarding **“Right to Cultivate/HGU Title** (Hak Guna Usaha), Right to Build/HGB Title (Hak Guna Bangunan) and Right to Use/Hak Pakai **title”, provide various** forms of land title to protect legal

religious and social organizations, and government bodies. Hak Milik title is not provided to Indonesian companies, foreign companies or foreign individuals. Thus Hak Pakai is the only available ownership title of land to foreign individuals. The HGU, HGB or Hak Pakai title may be acquired by both Indonesian companies and foreign companies incorporated under Indonesian law and domiciled in Indonesia. Below is a recap of the abovementioned titles:

commonly referred to as the Hak Ulayat or Communal Rights. This title is an unregistered form but may be evidenced by certificates registered in the books of the local sub-district office.

Under the Minister for Agrarian Affairs/Head of National Land Agency Decree No. 2 of 1999, in order to acquire a parcel of land of more than 25 hectares for agricultural business or more than 1 hectare for non-agricultural business, a company

Topics	HGU Title	HGB Title	Hak Pakai Title
Parcel of land with granted title	Only over to State-owned land	<ul style="list-style-type: none"> Over to State-owned land Over to Right to manage/<i>Hak Pengelolaan</i> land Over to Hak Milik land 	Same with HGB title
Purpose of rights	The right to commercialize such land for the company which is doing business in farming, plantation, fishery and breeding	The right to build and own buildings on such parcel of land, including on land owned by another party	The right to use or extract/harvest such parcel of land
Rights to transfer and encumber	Yes	Yes	<ul style="list-style-type: none"> No (based on Law) Yes (based on GR)
Land area	<ul style="list-style-type: none"> Individuals: 5-25 hectares Enterprise: determined by Minister 	Not determined	Not determined
Maximum terms	<ul style="list-style-type: none"> Initial term: 35 years Extended term: 25 years 	<ul style="list-style-type: none"> Initial term: 30 years Extended term: 20 years 	<ul style="list-style-type: none"> Initial term: 25 years Extended term: 20 years
Extension of title	no later than 2 years prior to the expiration of the initial/additional term	<ul style="list-style-type: none"> Similar with HGU title HGB title over Hak Milik land cannot be extended but can be granted a new HGB title 	Same with HGB title
Land restoration at expiration date of title	Yes. Cost is borne by the previous title holder	<ul style="list-style-type: none"> Only for State- owned land is determined and similar with HGU title At other land, it depends on each underlying agreement 	Same with HGB title

ownership. Freehold (Hak Milik) title is provided only to Indonesian individuals, certain

The Basic Agrarian Law also recognizes a form of title based on Indonesian traditional law

must obtain a Location Permit which grants it the right to buy, clear and develop the particular

LAND REGULATIONS - Part 1

LAND OWNERSHIP REGULATIONS and ITS ACCOUNTING (Cont.)



parcel. To acquire such land, the Permit

holder must still negotiate with the landowners whose land is located within the area prescribed in the Permit. After the process of acquisition and the settlement of rights are completed, the Permit holder may apply for and be granted the relevant rights of land.

The Law No.2/2012 on Land Procurement for Public Interest introduces steps for the procurement of land for public interest. The Government is given the task of ensuring the availability of land required for the public interest. A party who owns or otherwise controls the Land Procurement Objects is obliged to release its rights upon such land for the purpose of public interest land procurement, following the provision of fair and reasonable compensation or a legally binding court decision. After such land is released, it becomes the property of the Government, the regional government or a state-owned enterprise, as the case may be.

The accounting treatment of land rights is mainly discussed in ISAK 25 (which became effective since January 1, 2012) and related PSAKs. Under this new ISAK, the cost of the acquisition of land rights under HGU, HGB and Hak Pakai title should be recognized as part of property, plant and equipment in accordance with **PSAK 16 "Property, Plant and Equipment"**. However, if the acquisition of land meets the definition of investment property or inventory then the land rights should be treated in accordance with **PSAK 13 "Investment Properties" or PSAK 14 "Inventories"**.

The land rights is not depreciated since its economic useful life is unlimited. In several cases, the economic useful life is limited because of the Government policy, management prediction on quality condition of the land, or nature of the main operation of the entity is to leave the land when they complete its activity.

Expense related to legal processing of land rights at initial acquisition of land is

recognized as part of cost of land in accordance with PSAK 16. Expenses related to legal processing of extension or renewal of land rights is recognized as intangible assets and amortized over the legal term of land rights or its economic useful life, whichever is shorter, in accordance with PSAK 19 "Intangible Assets".

As part of transitional provision, at January 1, 2012, the entity should reclassify the balance of its deferred charges arising from legal processing of land rights at initial acquisition of land into net carrying amount of the respective land.

Under PSAK 16, cost of land restoration provision should be estimated at initial acquisition and recognized as part of acquisition cost of land. [*Benny Andria*]



News
from our

Office



RSM AAJ Associates Annual Meeting (2-4 June 2012)



This year, our firm held our annual business plan meeting in June. A bit early compared to last year annual meeting. All key people in the Firm get together to talk about results in the last 12 months and also to formulate what actions we are going to take in the next 12 months. As usual the Board of Management annual meeting

discusses numerous important office issues and tries to agree on the implications and how to deal with those issues. While this meeting is known as a good time to present all type of argumentations and concerns, the Board of Management also utilizes the event for better team building and also for having fun together.



RSM Academy (10-15 June 2012) in Eindhoven, The Netherlands

This year two of our partners, Hadi Avilla and Rudi Hartono Purba, went to the 6th RSM Academy to gain more knowledge about managing international assignments in the area of audit, tax and consulting. RSM AAJ Associates has been one of the regular member firm who send people to the RSM Academy. This year is even more special because one of Partner, also an alumni of RSM Academy, Angela Indirawati Simatupang, was selected to become one of instructor in RSM Academy. The RSM Academy was specifically designed for senior managers, directors and junior partners to begin their international career journey through collaborative learning and immersing themselves into the diversity of business and personal cultures you would expect to find when working internationally.



RSM Asia Pacific Conference (2-4 May 2012)

The RSM Asia Pacific Regional Conference this year was held in Hong Kong from 2 to 4 May 2012. This year the conference focused on two main things, quality and branding. A number of important training was programmed through-out the conference including service lines training and also RSM Inspection program training. Yet, the highlight of the conference was the launching of the new RSM brand which most people in the RSM family feel great about it. 10 of our Partners plus 5 of our senior staff attended the conference together with more than 120 delegates from the region.



Football Accountant Cup 2012



As world's number one game, it is no wonder that this game is a favourite for many Indonesians, not least the Public Accounting Firms' staff in Indonesia. A number of public accounting firms work together to hold The Football Accountant Cup in June and July 2012, Together with PWC Indonesia, Deloitte Indonesia, EY Indonesia, KPMG Indonesia, BDO Indonesia, Moore Stephens, Mazars Indonesia , RSM AAJ Associates is one of the participant of this event. The purposes of this event are to promote sport activity as part of work-life balance, build stronger staff relationship within each firm and between firms, to respect each other without soliciting staff members of other firms, to encourage participation of Indonesia Public Accountant Firms staff in healthy sport competition, and to create fresh and non-work related atmosphere within the firms.

The image features a warm, golden-yellow sunset sky as the background. In the foreground, the dark silhouettes of two mosque domes are visible. The dome on the left is partially cut off by the edge of the frame, while the one on the right is more complete. Both domes have intricate geometric patterns and are topped with slender spires. The overall mood is peaceful and spiritual.

Ramadhan is a month
of blessings...

Marhaban ya Ramadhan



Plaza ABDA, 10th Floor
Jl. Jend. Sudirman Kav. 59
Jakarta 12190 Indonesia
Phone (021) 5140 1340
Fax (021) 5140 1350
www.rsm.aajassociates.com

To receive printed copies of Wake Up Call, please contact us at :
newsletter@rsm.aajassociates.com.

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Audit & Assurance
audit@rsm.aajassociates.com

IFRS Advisory
ifrs@rsm.aajassociates.com

Risk & Internal Audit Advisory
ras@rsm.aajassociates.com

IT Assurance and Advisory Services
itaas@rsm.aajassociates.com

Transaction Support & Corporate Finance
tscm@rsm.aajassociates.com

Tax Advisory
tax@rsm.aajassociates.com

Accounting & Administration
accounting@rsm.aajassociates.com

Business Establishment & Corporate Secretarial
business@rsm.aajassociates.com

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