



Indonesian Companies Facing Challenges Implementing PSAK 73 in Leases



Overview

Indonesian companies nowadays are dealing with the implementation of a new standard of leasing. PSAK 73 (adopt from IFRS 16) introduce single lessee accounting model that more reflect economic reality of an entity and sets how financial statement preparer recognizes, measures, presents and discloses leases. The objective is to ensure that lessee and lessor provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for financial statements users to assess effect of leases in financial position, financial performance and entity's cash flows.

In Indonesia the IFRS 16 has been adopted to PSAK 73 and will soon supersedes PSAK 30 and its interpretation, while IFRS 16 supersedes IAS 17 and its interpretation.

Standards	PSAK	IFRS
Current	<ul style="list-style-type: none"> ▪ PSAK 30: Sewa ▪ ISAK 8: <i>Penentuan Apakah Suatu Perjanjian Mengandung Suatu Sewa</i> ▪ ISAK 23: <i>Sewa Operasi – Insentif</i> ▪ ISAK 24: <i>Evaluasi Substansi Beberapa Transaksi yang Melibatkan Suatu Bentuk Legal Sewa</i> ▪ ISAK 25: <i>Hak atas Tanah</i> 	<ul style="list-style-type: none"> ▪ IAS 17: Leases ▪ IFRIC 4: Determining Whether an Arrangement Contains a Lease ▪ SIC-15: Operating Leases — Incentives ▪ SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease
New	<ul style="list-style-type: none"> ▪ PSAK 73: Sewa 	<ul style="list-style-type: none"> ▪ IFRS 16: Leases



Scope of application

A lease in PSAK 73 includes all contracts that stated the right to control the use of an identified asset for a period of times. In other words, lessee has to recognize assets and liabilities for almost all leases in the statement of financial position, unless the lease term is 12 months or less or the asset has a low value. DSAK IAI has specified that small items such as tablets, personal computers, office furniture and telephones would normally qualify for the exemption.

DSAK IAI included another exemption, based on the feedback provided on cost and benefit, in the new standard to reduce the costs and complexity of PSAK 73, those exemptions are:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources
- Leases of biological assets held by a lessee (see PSAK 69: *Agrikultur yang dimiliki oleh Penyewa* or IAS 41 Agriculture)
- Service concession arrangements (see ISAK 16: *Perjanjian Konsesi Jasa* or IFRIC 12 Service Concession Arrangements)
- Licences of intellectual property granted by a lessor (see PSAK 72: *Pendapatan dari Kontrak dengan Pelanggan* or IFRS 15 Revenue from Contracts with Customers)



- Rights held by a lessee under licensing agreements for items such as films, videos, plays, manuscripts, patents and copyrights (see PSAK 19: Aset Takberwujud IAS 38 or Intangible Assets)

A lessee may elect to apply or not to apply PSAK 73 to leases of intangible assets, other than those items mentioned above.



New leasing standard

Below are the key points of what the new leasing standard on PSAK 73:

- In principal, all leases go on the statement of financial position. The term of operating and finance leases is no longer applicable for lessee, and a new lease asset (describe as the right-of-use leased item for the lease period) and lease liability (describe as the obligation to make lease payments) are recognized for all leases.
- Lessee measures right-of-use assets in the same way with other non-financial assets and lease liabilities in the same way with other financial liabilities. As a result, a lessee should recognize depreciation of the right-of-use asset and interest expense on the lease liability. The depreciation method would usually be on a straight-line method.
- At the commencement, lessee should recognize a right-of-use asset and lease liability, based on the discounted present value using interest rate implied in the lease. When an entity in certainty condition to exercise an option to extend a lease, lease liabilities would be measured with reference of estimated lease term, including optional lease periods
- Lessee needs to apply judgement in disclosing information regarding leases effect to the financial position, financial performance and cash flows.
- No significant changes for lessor accounting, they still continue to portray the identified asset and classify the lease, as operating or finance lease, based on risk and reward have been transferred to the lessee.
- Lessor must enhance disclosures to provide improvement on financial information related with lessor's risk exposure, specifically for residual value risk.



Organization impact

The impact to organization may vary related to its size or industry, but in general, impact needs to be considered relating the implementations are:

- Consider the impact to financial statement

The new leases standard could materially affect the balance sheet and organization performance indicators, such as financial ratios. It will increase assets and liabilities and distinguished operating expenses into depreciation and interest cost. The team should identify the activity that have potential impact in financial statement such as debt covenants, access to additional financing, capital spending, internal and external financial analyses, bonus and incentive plans, cash flow strategies, contracting and pricing method.

- Consider the tax implications

Changes in the timing and amount in expenses recognition could affect the organization's income tax reporting, resulting larger or smaller timing differences, impact to timing of tax payments and deferred tax assets and liabilities. The organization's tax preparer must need to understand the impact of the new rules on book and tax accounting methods as well as any resulting changes in the lease information accumulated by the organization for tax recordkeeping purposes.



- Consider possible changes to systems, process, and controls

Information systems need to accommodate additional information. More sources of information and other data requirements could require changes in personnel and procedures regarding key accounting processes. As a result, organizations may need to adopt new internal controls or modify existing controls to ensure completeness and accuracy of information used for calculation process based on the new standard.

- Consider the need of new IT systems

Lessee may need to perform the lease calculations as required by the new standard, they need to consider in implementing new IT systems that are capable dealing with the new requirements instead of using spreadsheets to manage their leases. Using spreadsheets tend to errors affecting misstatement of financial statement if it's not manage well. The new standard demand all leases surfaced on the balance sheet.

- Reconsider the lease term and business model

Lessee may reconsider their necessity when negotiating their lease terms and payments. A shorter lease term and bigger portion of variable payments rather than fixed payments may result smaller lease liabilities. In other hand, one of the obvious reasons why lessee prefer to recognize operating lease for their financial lease agreement is simply because lessee not expecting show the asset and liability owned by other party. Finally, the new standard eradicate distinction between operating and finance lease, lessee may reconsider whether buying an asset would be more favorable rather than using leasing method.



Industry Impacted

Most of the entities around the world have leases in their operation and most of them are off-balance sheet, such as:

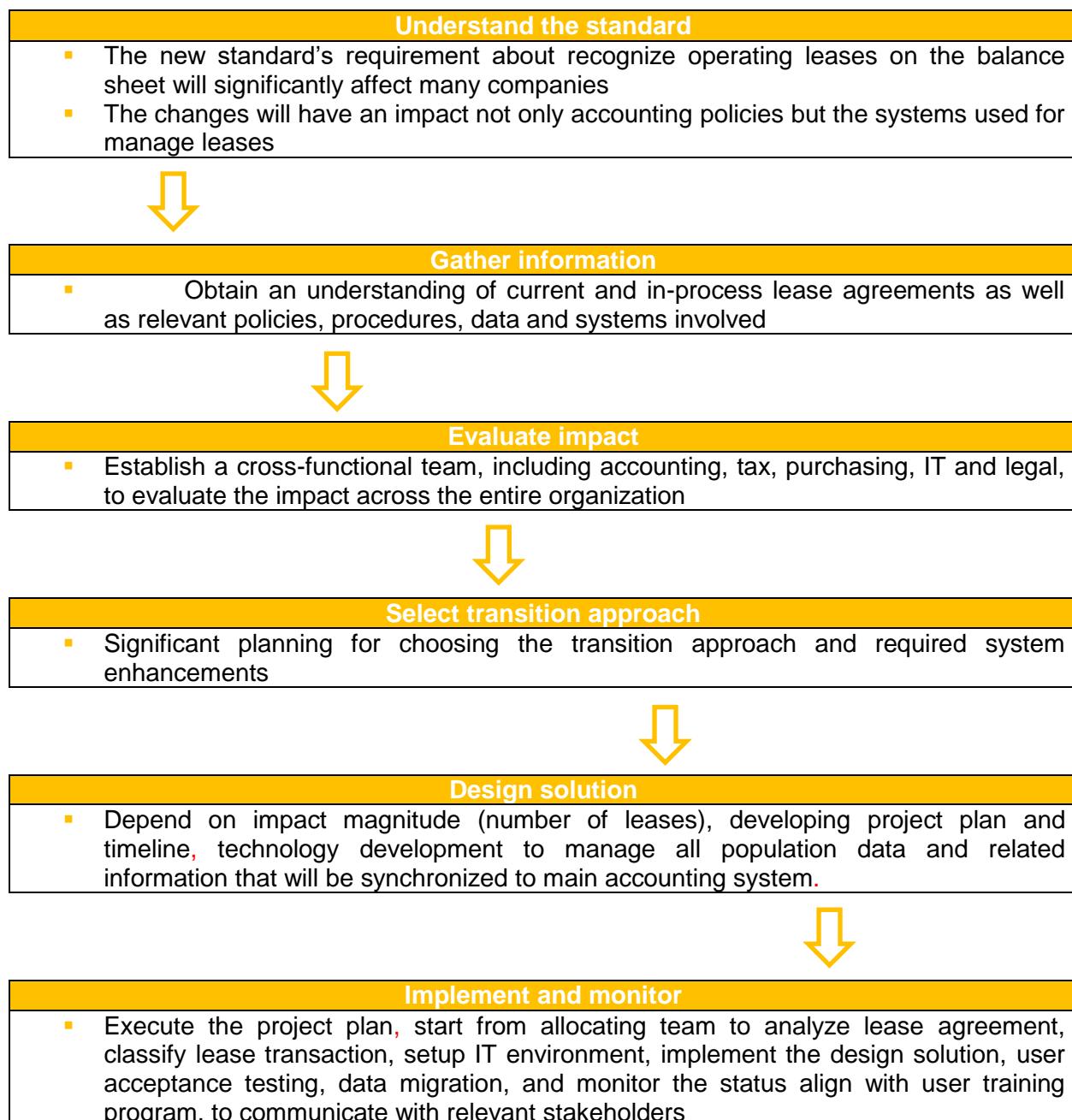
- Airlines industry sector that leases aircraft
- Retailers industry sector that leases retail spaces
- Travel and leisure industry sector that leases property and vehicle
- Transportation industry sector that leases a truck
- Telecommunications industry sector leases signal transmission, fiber optic cables and cell towers

The impact will be huge for industries which have a large portfolio of rented assets.





Steps to implement (a brief methodology)



The challenges for implementation are on every step of this methodology. Start from understanding the new standard, both concept and impact for the financial statement, gathered contract documents, population number calculation, identify whether the contract contains a lease or not, develop efficient strategy, develop technology suitable for entity and finally allocating the resources (both team and budget) for implementing the strategy. Each step must be executed well in order to achieve implementation goal.



Crowe Lease Accounting Optimizer

The risk of non-compliance with the coming lease accounting changes is too large to be caught unprepared. There could be a significant financial effect for your organization due to the changes in the IFRS 16 lease accounting requirements. Compliance with the updated requirements is not optional, and companies need to prepare now to minimize the effect on staff and help avoid rework in the future.

Designed by the accounting and technology professionals at Crowe Global, the Crowe Lease Accounting Optimizer can become a helpful tool to implement the new standard. It combines lease management with a financial impact calculator for organizations that seeking compliance with the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) regulation on accounting standards for leases.



Effective date

The date of initial application of IFRS 16 is 1 January 2019. Earlier application is permitted for entities that apply IFRS 15: Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. For lessee there is a choice of full retrospective application or retrospective application without restatement of prior year comparatives.

In Indonesia PSAK 73: Sewa, expected to be implemented in 1 January 2020 (a year after IFRS 16 effective date). Early adoption is allowed if only the entity has been adopted also PSAK 72: *Pendapatan dari Kontrak dengan Pelanggan*.



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