

# IMPLEMENTATION OF IFRS FOR SME'S IN INDONESIA (Case Study on Rural Banks)

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**Abstract** – State of Indonesia has a structure which is dominated by economic actors or small businesses and medium enterprises (SME's), nearly 90% of companies in Indonesia as SME's. Along with the decision of Indonesian Institute of Accountants (IAI) to establish IFRS for SME's dated on January 1, 2010 and entered into force for 2011, then SME's will make adjustments in terms of presentation of financial statement in the year of 2011. Rural banks as one of the SME's have established themselves to use the IFRS for SME's via the issuance of the accounting guidelines for Rural Banks on July 1, 2010 based on Indonesian Bank Circular Letter No.12/14/DKBU/2010 Accounting Guidelines on the Implementation of Rural Banks.

In 2011, it began to apply IFRS for SME's in Rural Banks and Rural Banks Accounting Guidelines, then in 2011 there must be adjustments on financial transactions with reference to the financial statement line items as described in the accounting guidelines for Rural Banks.

This paper explains how the adjustments are made, starting from the background of IFRS for SME's in Indonesia, the reason why Rural Banks use IFRS for SME's and the differences of public IFRS from IFRS for SME's in Indonesia.

**Keywords-component:** *IFRS for SME's, Rural Banks, Accounting Guidelines.*

## I. INTRODUCTION

IFRS for SME's –in Indonesia- means when (a) it has no significant public accountability (b) it publishes general purpose financial statements for external users.

State of Indonesia has a structure which is dominated by economic actors or Small businesses and Medium Enterprises (SME's). The problem occurs when SME's need assistance in the preparation of financial statements.

Rural Banks is one of the supporters of Indonesia economic development, especially for micro, small and medium enterprises and informal sectors. The role of Rural Banks in the provision of credit for micro, small and medium enterprises could help

creating employment, equity income and equity opportunities in Indonesia. As an entity that has a public responsibility for collecting funds from society, Rural Bank requires a means of accountability to stakeholders. The financial statement is one of the ingredients. The financial statement should be prepared in accordance with the principles or standards of financial accounting in Indonesia.

Indonesian Institute of Accountants (IAI) on Tuesday, December 23, 2008 has declared convergence of IFRS in financial accounting standard set started after January 1, 2012 and applied to the preparation of financial statements of the entity. IAI on this occasion is also publishing Exposure Draft of Financial Accounting Standards for Small and Medium Enterprise (IFRS for SME's). IFRS for SME's is becoming a reference for SME's in notes and records of all transactions.

IFRS for SME's are designed to meet the needs of SME, IFRS for SME's (in the force in Indonesia) are the result of modification and simplification of the full IFRS expected to meet the financial reporting requirements of private companies and able to lighten the finance reporting burden of the cost-benefits approach of private companies.

In accordance with the scope of IFRS for SME's, the standard is intended to be used by entities without public accountability. Entities without public accountability are entities that have no significant public accountability and publish general purpose financial statements for external users. The examples of external users are the owners who are not directly involved in managing the business, creditors, and credit rating agencies. However, the entities that have significant public responsibility can also use the IFRS for SME's when they are allowed by regulators. The examples of Rural Banks which have been allowed by Bank of Indonesia (BI) to use IFRS for SME's are beginning from January 1, 2010, according to the rule No.11/DKBU December 31, 2009.

Act No.7/1992 on Banking amended by Law No.10/1998 is the legal foundation for Rural Banks. The law states that Rural Banks is a bank conducting business based on conventional or Islamic principle in its activities do not provide services in payment traffic.

#### **Rural Banks business and people in rural areas.**

Rural banks can be a legal form of Company, Local Company or a cooperative. In banking industry, Bank of Indonesia, since July 1, 2010 has begun imposing Circular Letter of Bank of Indonesia 12/14/DKBU.2010 on the Implementation of Guidelines Accounting Rural Banks followed by the enactment of IFRS for SME's as the standard financial accounting for Rural Bank since January 1, 2010. To apply IFRS of SME's for Rural Banks should be supported by appropriate accounting guidelines for the industry rural banks. Referring to Bank of Indonesia, together with the Standards Board of Financial Accounting, has agreed to guide the Bank's Credit Accounting People as accounting guidelines for rural banks and enable to present financial statements based on IFRS financial statements of SME's to start Rural Banks for the year of 2010.

Preparation of Accounting Principle is intended to provide a minimum benchmark that must be fulfilled by the rural bank in preparing its financial statements. In addition, the accounting Principle-Rural Banks also aims to create uniformity in accounting treatment for unique transactions in the rural bank in the preparation of financial statements in order to improve the quality of financial reporting among rural banks, especially the unique appeal.

IFRS for SME's has been in force since 1<sup>st</sup> January 2010, it must be done with the adjustment for financial transactions in the year of 2010 according to the procedure adjustments for items in the financial statements as described in Accounting Principles of Rural Bank, so that the effect of the transactions described in the financial statements end in 2010 under IFRS for SME's. As the company manages public funds, Rural Bank certainly has a public responsibility and is obliged to present quality financial reporting, which is one important source of information in decision-making as well as a form of management responsibility for activities that have been done in certain period of time.

The financial statements are qualified to provide accurate and comprehensive information for all interested parties and reflect the performance of rural banks as a whole. To achieve these objectives,

standards and guidelines of applicable accounting should be continually refined in line with the development of transactions and financial products today, and harmonization with international accounting standards. However, with limited activity and sample, it is considered inadequate in terms of costs and benefits for rural banks using financial accounting standards generally used for commercial banks. To solve that problem, the Rural Bank has established the use of a simple financial accounting standard of IFRS for SME's applied for rural banks since January 1, 2010.

IFRS applied to the Rural Bank before 2010 are IFRS No: 31 on Accounting for Banks, IFRS No: 50 on financial instruments: presentation and disclosure, IFRS No: 55 Financial statement: recognition and measurement.

Nowadays, the application of SFAS No: 50 and 55 for Rural Banks are considered unsuitable for Rural Banks, since it requires higher costs than gained benefits. Accordingly, the Rural Bank requires that appropriate standards of financial accounting, ended on December 31, 2009.

Bank of Indonesia (BI) has issued Circular No.11/37/DKBU determined regarding to the use of IFRS for SME's as financial accounting standards for Rural Banks conducting conventional business.

It is expected that by using Accounting Principle of Rural Bank, the completeness, fairness, accuracy and clarity of the information presented in the financial statements of Rural Banks are improved, so that the information is better understood and trusted by the community.

The comprehension and confidence of public toward the information submitted by Rural Bank are expected to grow and increase public confidence in the Rural Bank industry as a whole.

## **II. LITERATURE**

SME's are:

- a. small and medium sized companies are companies that do not have public accountability, and
- b. publish general purpose financial statements for external users. For example; external users include owners who are not involved in the management business, existing and potential creditors, and credit rating agencies.

An entity has public accountability if:

- a. the debt or equity instruments are traded in public markets or in the process of issuing such as instruments traded in public markets (stock, domestic or foreign securities markets or over-the-counter, including local and regional markets) or;
- b. the holder of the assets in a fiduciary capacity for a broad group of outsiders as one of the core businesses. This usually happens for a bank, credit union insurance company, securities broker / dealers, mutual funds and investment banks.

### IFRS for SME's

Two criteria that determine whether an entity classified as entities without public accountability, namely:

1. it does not have a significant public accountability; and an entity is stated to have a significant accountability if:
  - a. The entity has filed a registration statement or an entity in the process of filing a registration statements on capital market authority or other regulators for the purpose of issuing securities in capital markets
  - b. The entity controls assets in a fiduciary capacity for large groups of society, such as banks, insurance entities, brokers and/or securities dealers, pension funds, mutual funds, and investment banks,
2. It publishes general purpose financial statements (general purpose financial statements) for external users. The examples for external users are:
  - a. Owners who are not directly involved in business management;
  - b. Creditor; and
  - c. Credit rating agencies.

Entities that have public accountability and significantly use the IFRS for SME's when the competent authority make regulations which permit the use of IFRS for SME's. However, if an entity, that has significant public accountability, prepares its financial statements according to IFRS for SME's, the financial statements prepared are not allowed to declare that "the financial statements have been prepared in accordance with IFRS for SME's", although there are laws or regulations that allow the

use of IFRS for SME's to the entities that have significant accountability.

### Rural Bank Financial Statement (According to the Indonesia Banking Accounting Guidelines)

#### The Objective of Financial Statement

The objective of financial statement is to provide information about the financial position, performance, changes in equity, cash flow and other information useful for users in order to make economic decision and show management accountability for the use of resources entrusted to it.

According to the Indonesia Banking Accounting Guidelines, Rural Banks financial statement for the general purpose consists of:

- 1) Balance sheet;
- 2) Statement of income;
- 3) Reports of changes in equity;
- 4) Statement of cash flows, and
- 5) Notes to the financial statement.

Rural banks are required to prepare financial statement as the report to Bank of Indonesia and other users regarding to the financial position, performance, and changes in financial position. Therefore, it takes the financial statements of Rural Banks that provide information for decision-making, as reflected in the following report:

#### 1) Statement of Financial Position

Rural Banks financial position is effected by the controlled economics resources, the financial structure, liquidity, solvency, and the ability to adapt to environmental changes. This information is useful in predicting the ability of Rural Banks in the future to generate cash and cash equivalent, investment needs, the distribution of return and cash flows, and the ability of rural banks to meet financial commitments as they are mature, for both short and long term. Informational Rural Banks financial position is reflected in the balance sheet.

#### 2) Performance Report Consolidation Rural Bank.

The performance is needed to assess potential changes in economics resources during the reporting period which may be controlled in the future. This information is useful to predict the capacity of rural banks to generate cash flows from existing resources. In addition, this information is useful in the formulation of the effectiveness of Rural Banks in utilizing

resources. Rural Banks performance information is reflected in the income statement.

3) Statement of Changes in Financial Position

Information changes in financial position of Rural Banks, among others:

- a. Changes in equity, equity information rural bank illustrates the increase or decrease in net assets or wealth during the reporting period based on the principle of particular measurement adopted and disclosed in the financial statements. This information is useful to know the changes in net assets arising from transactions with shareholders and the amount of gain or loss arising from the activities of rural banks. Information equity is reflected in the statement of changes in equity.
- b. Changes in cash and cash equivalents, information changes in cash and cash equivalent are useful to assess the ability of Rural Banks to generate cash flows and the needs of rural banks to use the cash flows on each activity during the reporting period. This information is useful to assess cash flows arising from operating, investing, and financing. Information changes in cash and cash equivalent are described in the statement of cash flows.
- c. Notes to the financial statements, to understand better the information contained in the consolidated financial position, performance reports and statements of changes in financial requires relevant explanation. The explanation may be disclosed in the notes to financial statements containing additional information on items presented in the balance sheet, income statement, and statement of changes in equity and cash flows.

Notes to the financial statement give a narrative description or the separation of items disclosed in the financial statement, as well as information about items that are unqualified for recognition in those statements.

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