

# FORESTRY ACCOUNTING IN INDONESIA<sup>1</sup>

Dwi Martani  
Nurul Husnah  
Dahliasari  
Taufik Hidayat  
Annisa  
Nia Pramita Sari  
Megan Freelycia Sumarandak

*Affiliation: Department of Accounting Faculty of Economics Universitas Indonesia*

## ABSTRACT

*Forest is one of natural resources owned by nations in order to be used for public welfare. Therefore the use of forest should be directed for public welfare, yet it ought to focus on ecosystem, environmental, management, and productivity sustainability aspects. Accounting is not only be used as a tool to report and capture forest management, yet it should also be used to present forest management accountability report.*

*This paper explains how both forestry accounting standard and practices in Indonesia. Forest produce agricultural products when they are harvested and become biologic assets during their growing period, which are best-suited to International Accounting Standard 41 about Agriculture for its accounting. Regulator has issued accounting guidance in form of ministerial regulation that sets out reporting issues. However, research result shows companies that hold concession permits have not yet reported and made any disclosures that conform to accounting guidance. In addition, regulator does not evaluate reporting obedience, so that there is no incentive for companies to obey to the existing guidance.*

**Keywords:** *Forestry accounting, Indonesia forest, reporting obedience, accounting guidance for timber companies.*

## 1. INTRODUCTION

Indonesia is one of world's lungs because it has got the third largest forest in the world (Barr et. al, 2011). Forest management in Indonesia does not only affect ecosystem and environment in Indonesia, but also affects those in the whole world. Therefore the attempts to manage the forest have not only come from Indonesian government but also from other parties that concern to Indonesian forest management.

Forests are one of natural resources owned by nations in order to be used for public welfare. Forest management is done on the bases of utility, sustainability, justice, equivalence, and transparency principles. Forest could be classified by their functions, which are production forest and conservation forest (Law No. 41 of 1999). Production forest can be divided into three types of forest: limited production forest, fixed production forest, and convertible production forest. Each type has different characteristics, aims, and business process.

The control over forest gives the nation such authorities to manage everything that is related to forest, determining forest area's status, and establishing a legal rela-

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tionship associated with forestry. Establishment of forest's main function is done by government. Forest utilization aims to earn optimal benefit for equitable welfare by keeping the forest sustain. Government gives concession permits to individuals, co-operatives, state/local-owned companies, and private-owned companies as well.

The unique function and role of forest has become an interesting subject to study, especially for its accounting aspect. Concession permits holders are not only responsible to companies' owners, but also to government, local community around the forest, environment, and the nature in general. Government has enacted many rules to ensure that forest utilization practices pay attention to the forest sustainability. On the other hand, concession permits holders would continue their effort to seek some profits and to increase shareholders' wealth.

The accounting aspect of concession holders is an interesting issue to be discussed, as they have industry uniqueness and regulations may affect their accounting practices. This paper only discusses forestry accounting practices in Indonesia in concession permits holders' viewpoint instead of in government's, as regulator, viewpoint. Nowadays concession permits only be given for production forest utilization. Concession permits for conservation forest is only given to state-owned companies. According to regulation of 2006, private-owned bodies can be given the right to utilize conservation forest. Methodologies that were used for analytical purpose in this paper were literature survey, investigation, interview, and financial statement analysis.

This paper consists of four sections. The first section explains introduction, the second one explains how regulatory progress might have influence on forestry accounting. Meanwhile, the third section explains the detailed forestry accounting in

Indonesia and critical analyses of forestry accounting in practice. The last section contains conclusion and feedbacks.

## **2. Literature and Regulation Reviews**

### **2.1. Scope of Forestry Accounting in Indonesia**

Accounting standard was set to guide in financial statements preparation and to make it easy for the readers to understand the financial statements. Accounting standard can be defined as a contract and agreement between its preparers and readers concerning financial statement. It is easier to compare and understand financial statements if they are prepared in accordance with good quality accounting standard.

Accounting standard was prepared in refer to objectives of financial statement. Environment, legal, and cultural conditions may influence how an accounting standard is set. Financial statements readers are the ultimate stakeholders of financial statements. Before IFRS convergence, some countries had prepared accounting standard in line with regulations in their own country. Countries whose companies funding come from capital market, had prepared their own accounting standards which are oriented to shareholders. On the contrary, if banking dominated source of fund, accounting standards became more oriented to creditors.

Forest industry is an industry that tight-regulated as forest is nations' assets so that its sustainability must be preserved. Entities can only be given the right to utilize or to take forest's yield which eventually gives the entities some income. Government has set certain contributions for those activities at different rate depending on the yield that is taken.

National regulations regulate which type of contribution that must be paid by concession permits holders. The regulations may evolve following business dynamics,

politics, and environment conditions. Forest management right is not only given to companies, but also to cooperatives, individuals, and society. The vast forest areas and backwoods make it hard to do such tight oversee over forest exploitation. Illegal logging and forest sustainability ignorance have contributed to the high deforestation rate in Indonesia.

## 2.2. Forestry Regulations

Forestry regulation has been regulated on Law No. 41 of 1999 concerning Forestry. This Law State is the first regulation which specially regulated forestry matters. Before this Law was enacted, forestry had been regulated on Law No. 5 of 1967 concerning Agricultural Principals. Going back to the date before the Law No. 5 of 1967 was enacted; forestry regulation had referred to Law No. 5 of 1960 concerning Agricultural Principals. Forest management in addition to referring to the Forestry Law also refers to other relevant laws include, Law No. 24 of 1992 on Spatial Planning and Law No. 23 of 1997 on Environmental Management.

Law No. 41 of 1999 comprehensively regulated forestry utilization as one of nation's assets. According to Constitution of 1945, forests as one of nation's assets should be exploited, as much as possible, for public welfare. An integrated understanding about "public welfare" in the context of forests should be taken in place; it means that the understanding about public welfare should not be disintegrated. Contributions that come from logs selling as well as ones that come from concession permits are included in national income which could be used to fund national budget, however environment sustainability still needs to be taken into account. Logs usage ought to see any impacts that may arise from environmental damage which is caused by forests utilization.

Forestry Law No. 41 of 1999 was

amended with with Government Regulation in Lieu of Law (Perpu) No. 1 of 2004 which later was enacted Law No. 19 of 2004 in which government added new clauses on the last chapter concerning agreement on mining in forest areas that had existed before State Law No. 41 of 1999 was applicable. Currently, regulations in Law No. 41 of 1999 have still been applied with some additions in Perpu No. 1 of 2004.

A forest is a unit of ecosystem in the form of natural resources which is dominated by trees in their environment, one with the others cannot be separated. According to Law No.41 of 1999 article 3, forest management is aimed to obtain equitable and sustainable prosperity by:

- a. guarantee the existence of forest with sufficient area and proportionate distribution;
- b. optimizing various functions of forest including conservation, protection, and production functions in order to achieve environmental, social, cultural, and economic benefits that are balanced and sustainable;
- c. increasing the carrying capacity of watershed;
- d. enhancing the ability to develop public's capacity and empowerment through participatory, equitable, and environmentally so as to create social and economic resilience and resistance to external change; and
- e. guarantee benefits distribution equitably and sustainably.

Forest management's goals caused forest utilization not only done for optimizing production output. Companies which have been given the right to utilize should perform forest management activity planning so that all those goals could be achieved.

Forest is national asset, thus Forestry Law gives three authorities to the government (article 4):

- a. Managing and administering everything related to forest, forest area, and forest yield;
- b. Establishing status of specific area as a forest area, or forest area as a non-forest area; and
- c. Administering and establishing legal relations between people and the forest, and regulate legal acts concerning forestry as well.

Forest's status can be differentiated as state forest and forest with rights. Hutan negara dapat berupa hutan adat. State forest, which is defined as a forest without any rights over its land, can be in form of custom forest. Meanwhile, forest with rights is a forest located in land where rights lay on it. The rights holders only have right to utilize the forest, but the right holder of the land is the state. Forest that is managed by business entities is classified as a forest with right. Custom forest is a state-owned forest within legal society's area.

Forest, in general, has three functions: to conserve, to protect, and to produce. Each forest in pair with its function is set by the government. Production forest is a forest which its ultimate function is to produce forestry products. Protection forest is a forest which main function is to protect against floods, soil erosion, sea water intrusion, to manage water supply, and to maintain soil fertility. Conservation forest area has specific characteristics and its main function is to preserve natural resources, wildlife, and the ecosystem. Although one forest area has been categorized as a production forest, its utilization should follow sustainability principle. On the other hand, protection and conservation forest can be exploited to earn economic benefits but this exploitation is not meant to break its main function, to conserve and to support existence.

Forests administration aims to gain benefits, as much as possible, for public welfare and keeping its sustainability. For-

ests administration consists of:

- Forest planning,
- Forest management,
- Research, development, education, and training,
- Forest oversees.

According to planning result, government will indicate forest areas along with each function. The government may give concession permits over specific areas to business entity. The permissions given to the entities are mostly in form of concession permits over production forests. However, currently the government is also giving concession permits over conservative forest to business entities.

Forest management consists of forest administration and preparation of forest management plan, forest utilization and forest area usage, forest rehabilitation and reclamation, and natural preservation and conservation as well. Forest utilization aims to gain optimal benefits for reaching public equitable prosperity, with keeping its sustainability.

Indonesian government may give concession permits to individuals, cooperatives, companies, and state/local-owned companies. Concession permits holders are obliged to keep, maintain, and sustain the forest they manage, also cooperate with local communities in the effort of preserving forest sustainability. In addition, concession permits holders have to pay concession contributions, provisions, reforestation contributions, employment insurance fund, and investment aimed for sustaining the forest as well.

The Law Number 41 of 1999 which further set in government regulation specially defines some related articles. Government Regulation Number 34 of 2002 concerning Forest Governance and Forest Management Planning, Forest Utilization and Forest Area Usage. This regulation later was amended with Government Regulation Number 6 of

2007 concerning Forest Governance and Forest Management Planning and Forest Utilization. Before issuing Government Regulation Number 34 of 2002, government had issued Government Regulation Number 6 of 1999 which specifically regulated Forest Utilization and Forest Yields Collection in Production Forest. The provision in Government Regulation Number 6 of 1999 for production forest is similar to provision in Government Regulation Number 34 of 2002, however Government Regulation Number 34 of 2002 comprehensively regulates forest management, not only specific for production forest.

In Government Regulation Number 34 of 2002, it is explained that forest, including plants on it, is a national asset. Even though concession holders undertake forest management, the plants in the end of concession period will become national asset. This condition indicates there is no control over plants, because in the end of concession period it will be given to state. Forest yield harvesting can not only refer to concession holders' interest, but it should refer to long-term and short-term work plans instead. This provision aims to conserve forest area in one location and to ensure that it is still planted in order to preserve the ecosystem and environment.

Government Regulation Number 34 of 2002 was amended since it was unable to facilitate sustainable national development, investment growth, acceleration of forest plantation development, forest degradation and public economy enhancement through deregulation and debureaucratization with good governance principle. One of positive backgrounds on Government Regulation Number 6 of 2007 amendments is the effort to encourage investment and plantation forest development.

The effort to push natural forest development is done by giving incentives to do investment on plantation forest. The busi-

nessmen need some fund to do investment on plantation forest from their own fund, bank loans, or fund which is generated from capital market. In order to get loans, a concession holder company needs to be assured on the right to utilize and control over investment that have been done. One of main amendments on Government Regulation Number 6 is, harvested plants from industrial plantation forest (HTI) are the assets of concession holders and can be used as collaterals as long as the utilization rights are valid. The amendments are hoped to bring improvements on the development of plantation forest industry and there will be more investors to invest in this industry.

### **2.3. Forestry Accounting Regulations in Indonesia**

Forest concession permits have been started from 1970s. In the early new order period, government gave forest management concession permits to some business entities. In 1970 accounting standard was applied in Indonesia thus the recording process followed book keeping process. At that time accounting had not followed specific rules on reporting and financial disclosure of timber companies yet. Accounting is done through a sequential process consisting of transaction recording, classifying, and summarizing so that financial statements can be prepared. In 1970, Indonesia accounting standard had not been applied yet, thus the process of preparing financial statements followed the book keeping process.

Financial statements are prepared in accordance with accounting rules by producing income statement, statement in changes in equity, and balance sheet. Information in notes to financial statements had not been fully disclosed yet because the absence of accounting standards. The presented financial statements were relatively simple which focused on income and expense recordings. Income and expense

recognitions mainly used cash basis, because accounting was viewed as cash-in and cash-out recordings. Classification of expense had no standard and each company made its own classification.

Indonesia Accounting Standards was firstly issued in 1973 with the name of Indonesia Accounting Principles (PAI). Reference used in preparing the standards was US GAAP. In 1994, PAI was amended towards Financial Accounting Standards (SAK) using International Accounting Standards (IAS) as the main reference. During 1995-2006 SAK was emerged by the occurrence of some industries including PSAK 32 regarding Forestry. In 2008, Indonesia decided to fully adopt SAK in 2012. This adoption process is finished in 2012 by leaving out IAS 41 which has not been adopted yet and some IFRSs that were published after 2010.

The rapid development of forest industry is one of factors encouraging the establishment of forestry accounting standards preparation committee. The Ministry of Forestry together with Indonesia Accountants Association (IAI) established a team whose job is to prepare an accounting standard for forestry. This team consisted of Indonesia Accounting Principles Committee members, Ministry of Forestry especially from Directorate General of Forest Utilization, and academicians. In September 7, 1997 IAI declared PSAK 32 regarding Forestry which was effectively applied from January 1, 2008.

This standard is aimed to standardize accounting practices and financial statements presentation of timber companies, based on openness principle so that can be used by external parties. PSAK 32 explained general characteristics of timber companies and their special accounting treatment. The standard also explained income and expense classification in details in accordance with forest management principles. PSAK 32 was prepared conform to

the existing regulations which were Forestry Law and implementation regulation when the standard was prepared. This standard regulates financial statements of concession permits holders, in terms of presentation, recognition, and specific expense classification in forest industry.

PSAK 32 set out some requirements to capitalize expenses related to concession administration and long-term work plan preparation. Expenses which benefit more than one year are capitalized and amortized over the concession period or throughout the useful life of these costs. For instance, concession administration expense is amortized over the concession period; on contrary expense occurred for a five-year work plan should be amortized for five years.

PSAK 32 specially regulated Industrial Plantation Forest (HTI) in development. HTI in development is costs accumulation during development process and development of HTI areas. According to PSAK, as long as the companies have not had ready-to-cut trees HTI in development will be capitalized. However, if the companies have had ready-to-cut trees, so HTI in development will be capitalized over concession period. The costs to plant and develop HTI after having ready-to-cut trees will be recognized as expenses in current period.

In order to give a more technical guideline, Ministry of Forestry issued Financial Reporting Guidelines for Forestry Companies (PPKPH) in 1999. PPKPH combined PSAK 32 and other relevant PSAKs so that it can be a complete set of guidelines to prepare financial statements of forestry companies. PSAK 32 and PPKPH had become references in preparing and presenting financial statements of forestry companies during 1995-2008.

Government Regulations Number 6 of 1999 which is adopted in Government Regulations Number 32 of 2002, states that plantations which are grown in Plantation For-



est Concession become companies' assets as long as the right is still valid, however at the time the right is revoked, facilities, infrastructure, and the plants will be owned by the government. Government Regulations Number 6 of 1999 was issued to replace Government Regulations Number 32 of 2002. In that new Government Regulation there is different provision compare to Government Regulations Number Number 32 of 2002 associated with HTI. Plants from HTI are the assets of forestry companies and can be used as collaterals as long as the right is valid (article 38). At the time when the right is abolished, immovable goods will become state's property and the plantations grown in working area will become companies' (article 38). Government Regulations Number 6 of 2007 confirmed that the plant is property of companies and can be used as collaterals to obtain funding.

Provisions in Government Regulation Number 6 of 2007 are inconsistent with provisions in PSAK 32. According to PSAK 32, plant asset that has not yielded yet is accumulated cost of the first cycle, does not represent cost accumulation to planting forest that still exists. Therefore Ministry of Finance proposed a letter to Financial Accounting Standards Board in 2008, asking for interpretation on articles concerning HTI in PSAK 32.

In 2007, Financial Accounting Standards Board (DSAK) started convergence process of accounting standards towards International Financial Reporting Standards (IFRS). This convergence mandates DSAK to adjust the existence standards with IFRS. In response to letters from Ministry of Forest, DSAK issued Statement of Financial Accounting Standards Revocation Number 1 which contained revocation of PSAK 32 Forestry, PSAK 35 Telecommunication Service Revenues, and PSAK 37 Toll Road Operator in 2009 and effectively applied from 2010. Practically from 2010, PSAK 32

has not been allowed to be applied as an accounting standard. DSAK has not yet adopted IAS 41 Agriculture which regulates agricultural products and biological assets in 2009. Therefore financial statements preparation in 2010 was done referring to other relevant PSAKs, for plant asset the relevant standard is PSAK 16 about Fixed Assets, so that regulation of plant assets following the rules in fixed asset accounting.

The Ministry of Forest anticipates the revocation of PSAK 32 by issuing Financial Reporting on Production Forest Utilization and Forest Management Guidelines (Dolapkeu-PHP2H) in the late of 2009 and effectively applied since Januari 1, 2010. The issuance of Dolapkeu makes timber companies still have a guidelines in preparing their financial statements even though PSAK 32 has been revoked. Dolapkeu is a comprehensive regulation for timber companies reporting. For special rules on forestry Dolapkeu still relevant to be used, however, for there are some general rules in PSAK there are irrelevant due to changes occurred during 2009-2012. Therefore regulator needs to review Dolapkeu to be relevant guidelines in preparing financial statements.

### **3. Analyses on Forestry Accounting Standards and Practices**

#### **3.1. Analyses on Forestry Accounting Standards in Indonesia**

Forestry Accounting Standards PSAK 32, specifically regulated production forest concessionary companies. PSAK did not specifically regulate protecting forest and conservation forest. PSAK 32 explained characteristics of timber companies and comprehensively regulated presentations of income statement, balance sheet, and notes to financial statement and recognition of income and expenses of forest industry. Income statement regulation explained types of income, expense, and recognition, pre-

sentation, and disclosure concepts. For the balance sheet, standard only regulated forestry specific assets and liabilities such as inventory, HTI in development, deferred charges, HTI development fund, and concession liability. For other assets and liabilities regulations following general rule on PSAK.

Production forest utilization rights are given into two types, natural forest utilization and industrial plantation forest utilization. For natural forest, companies are given the right to manage ready-to-cut forest. Companies collect forest yield that has already in forest. For HTI, companies grow plants on it before cutting down. Characteristics of HTI are similar to farm because attempt was made to grow before harvesting. However, for forest concession permit, forest logging is determined by the regulator so it can not be freely done by the company.

Companies, to be able to manage forest should get forest management permit by regulator, in this case, done by Ministry of Forest. The permit is done by following statutory procedures. Companies should prepare forest management work plan over concession period wanted. In addition to completing the administration, companies are obliged to pay forest management concession permit to the state. Costs to pay the permit and preparing forest management proposal are capitalized as deferred charges and will be amortized over concession period.

To be able to cut, companies are required to prepare long-term, medium-term, and short-term work plans. These work plans consist of cutting and planting activities that will be done in a specific time period. Work plans consist of long-term, medium-term, and short-term (annual) plans. Work plan preparation becomes an important activity in forest industry, because companies are not possible to cut down the trees

according to their wishes, but they must consider that the preservation of the natural forest cover is maintained. The number of trees felled each year is not determined solely by the company, but it was decided by the regulator in this case the Ministry of Forestry. Regulatory intervention is necessary to keep in one area of forest cover is maintained so that water conservation and environmental conditions do not change. Implementation of the created work plans are monitored and evaluated every month, in order to hat the company does not cut exceed what was planned. This activity makes income of timber companies very influenced by the amount of forest harvest plans set by regulator.

PSAK 32 regulated in detail the classification of expenses. Expenses associated with the assets transformation process are classified as costs of production. These costs are categorized based on planning, planting, maintenance, forest development, fire control, forest protection, forest harvesting, fulfillment of obligations to the state, the fulfillment of environmental and social infrastructure development. Including in cost of production is amortization expense associated with concession permit administration and preparation of medium-term and short-term plans. Cost to plant the forest for natural preservation and landscaping since they are not associated with production plants are classified as miscellaneous expenses. Cost incurred for HTI are deferred / capitalized until there are ready-to-cut trees. After harvested, this cost will be amortized and its amortization expense will be classified as production cost.

### **Natural Forest**

In natural forest, companies do not undertake transformation process until the trees are ready to cut. Companies still do planting and maintaining the plantation. Companies is mandated to do reforestation



on the forest that has been harvested, thus natural forest could be preserved as before even though it has been harvested. However planting activity may not be enjoyed by the company, because the planted trees are not necessarily have to be cut down at the end of the concession period.

Permits holders will record cost of permits administration as deferred charges. The value of plantation will not be recorded by the companies and so will the value of forest land because both of plantation and land is owned by the state. Companies only utilize existing forest yield. The value of plantation cannot be calculated so each occurred logging, companies are unable to calculate costs of timber harvested. Cost of which is included to cut costs, amortization of deferred of concession permit administration / maintenance that occurred during associated period.

The state obliges companies to pay cost of right administration, compulsory fees, and undertake reforestation on harvested forest. The costs incurred - related to planting and maintaining the forest and fees payment - are recognized as cost of production when it is incurred. There is no record of assets on reforestation activity because referring to Law Number 41 of 1999, all plantation that have been grown by companies in the end of concession period will be owned by the state in the end of concession period - unless before in the end of concession period the trees are ready to be cut, so they can be utilized by the companies. The income earned from felled trees, paired with expense incurred from reforestation, maintaining plantation, and other activities related with reforestation process, expense for logging, and fulfillment of obligation to the state, are to be paid on the timber.

Accounting practices on natural forest have caused the companies to not capitalize the costs incurred, thus they have no

plant assets in accordance with Law Number 41 of 1999 which boldly explained that in the end of concession period, plants will become the state's property. This regulation later was amended in Government Regulation Number 6 of 2007 that distinguishes ownership of plant assets in the end of concession period for natural forest which is owned by the state and the one which owned by companies. In these two regulations stated that for natural forest, plant assets are owned by the state so that there is no control by companies and consequently, there will be no assets recording on the plants.

### **Industrial Forest**

Business process for industrial forest is slightly different. Companies are given the right to manage forest areas on which there is no ready-to-cut plant. The companies then start their activities by planting the forest, and will obtain the yield in form of timber or other forest products. This planting process follows plants cycle, it can be 5 years or 8 years, depending on the types of plants. Concession permits holders often have 20 to 40 years of forest utilization. According to PSAK 32, costs associated with plant transformasion process had been regulated as follows:

- If no tree is ready to be cut, so the costs will be capitalized as "HTI in development" until it meets the age of ready to be cut and amortized over the concession period and amortization is started since the date of logging and will be recorded as production cost. Amortization can be done with the straight-line method or units of production method.
- If there are ready-to-cut trees, costs associated with forest maintenance and development will be recorded as cost of production.

The provision in PSAK 32 was consis-

tent to Law 41 of 1999 which stated plants in the end of concession period are national assets. Capitalization process can only be done if there is no tree ready to be cut, in the first cycle. Amortization is also done over the concession period not based on the plants utilization period.

Practically, planting process is done in planting block area in different time. To maintain income sustainability, companies will do management on concession area received from government in planting block area. This activity is also based on planting plans that has been explained when proposing forest concession permit. After the first block is ready to be cut, capitalization process will be ended although at that time maintaining and planting process are still being undertaken in other blocks. Capitalized expenses are expenses related to planting activity in the first cycle until in the first block available ready-to-cut trees. Expense incurred for planting process in the second cycle on the first block and expenses paid to finish planting and maintaining on the second and other blocks are not capitalized because companies have already had ready-to-cut trees on the first block. Illustration below shows how PSAK 32 treatment on HTI in development.

Based on the provision, planting cost in the second cycle will be expensed; meanwhile planting cost in the first cycle will be amortized over the concession period. This concept is slightly inconsistent with matching principle in accounting, because when developing the second cycle, third cycle, and so on, the associated costs will never be capitalized even though the costs from the first cycle are expensed in the second and next cycles whereas the income may not be earned outside the cycles. Plant costs capitalization can only be done as long as companies are not having ready-to-cut trees, by the the companies has finished the first planting cycle, so the companies

will have been having ready-to-cut trees thus they are not permitted to capitalize planting costs. This provision makes HTI in development until it is ready to be harvested. HTI in development is amortized over the concession period.

Amortization process is done over the concession period, not over harvesting period. The concession period is relatively longer than cycle age and harvesting period. Total value capitalized does not represent the future economic benefits. This can happen if the process of harvesting a block only one or two years, then the cost of the block is still recorded until the end of the concession period. This is inconsistent with the definition of assets which have future economic benefits. Amortization until the end of the concession period causes matching principle cannot be applied because amortization process is still occurring, whereas the cut trees are trees from the second and next planting cycles.

The provision in PSAK 32 was well applied by the companies. The Ministry of Forestry prepared Forest Companies Financial Reporting Guidelines (PPKPH) as technical guidelines to prepare financial statements. In PPKPH there is a detailed explanation that costs occurred in the second and next cycles for HTI are expensed as production costs. This accounting practice raised debates with tax authorities for abusing matching principles and exaggerating the amount of expenses at the time companies have not earned income and HTI in development does not represent future economic benefits

In substance, the provisions of PSAK 32 are violating the basic framework of the presentation and disclosures of financial statements. Matching concept principles is not applied, because the cost of planting in blocks B, C, D, E in year 6 after block A start harvesting expensed, whereas expenditures to provide future benefits in the fu-

ture. Similarly, the cost of production in year 6 and further incorporating elements of the investment cost of planting new blocks that have been cut down, when expenditures are made to grow a new plant on the block that has been cut.

Amortization of the costs of HTI in development is performed after harvesting block A without taking into account that HTI in development is such a costs accumulation incurred for all blocks. So it is represented at the year 6, the cost incurred when the new harvest 50% of the wood in block A, while the expense includes amortization expense of investment in other blocks that have not been harvested.

There is no problem in recognition and measurement approaches in PSAK 32 if viewed in long-term context. When the harvesting cycle becomes normal, every year a company fully harvests its plants in one block, so that the company will get stable profits. However, errors in asset recognition will still occur because the value of HTI in development decreased since the amortization process while the situation on the ground has been cleared of forest replanted so that its value should be stable when all blocks have been completed their cycles. If it is assumed there is inflation every year, then the value of HTI in development of is small because it contains the accumulated cost at the time of the first planting, of which value is less than the cost of investment at the time of reporting.

PSAK 32 was consistently applied by the company during the year 2005-2009. At the time issued regulations stating that the plant is the company's assets, and then the regulator and the company tried to revisit errors in recording immature plants. If PSAK 32 treatment was consistently applied, the value of HTI in the development would be static and its value would decrease due to the amortization process. It seemed to be no investment made by the company af-

ter completed one cycle.

In practice, it turns out that there is one / two companies whose the understanding of "if ready-cut-tree is available" means a tree ready for harvest on a planting block. Thus, capitalization process is continuously performed and expensing is done when trees are cut following the farm accounting practices. Companies that use this recording pattern is HTI management company that also has a plantation. Company and corporate auditors assume that the characteristics of HTI and plantations are not different, thus accounting applied in plantations is also applied in HTI. When we examine the financial statements, we will find two differences in the recording of the value of HTI, most followed PSAK 32 and a small portion used Bapepam to accounting base for recognizing HTI in development asset and expenses associated with HTI.

Regulator in order to adjust the accounting provisions with Government Regulation intended to propose the Financial Accounting Standards Board (DSAK) to change the interpretation of PSAK 32 or provide the relevant paragraphs of HTI in development. At the time the letter was sent to DSAK, Indonesian Accountants Association (IAI) has decided to converge with IFRS. In the IFRS and IAS there is no special forestry accounting standard, which exists on IAS 41 Agriculture. IAS 41 does not regulate the company, but only regulates biological assets and agricultural products. In response to the letter sent by the Ministry of Forestry, DSAK revoked SFAS 32 and effective January 1, 2010 PSAK 32 is no longer applicable.

The reason behind PSAK 32 revocation was IFRS convergence. There is no special forestry accounting in IFRS. The second reason was PSAK was viewed inconsistent with matching principles in expense recognition and HTI in development did not meet the definition of asset.

**Table 2.1 Inconsistencies in PSAK 32**

PSAK 32	Explanation
<ul style="list-style-type: none"> <li>• If there is no ready-to-cut tree available, then the costs associated with planting, maintenance and forest development are capitalized as "plantation development" until the age of ready cut and amortized over the concession period, and the amortization will start from harvesting and recorded as cost of production. Amortization can be done using the straight-line method or Unit of Production method.</li> <li>• If ready-to-cut tree is available, costs related to planting, maintenance and development of the forest is recorded as cost of production.</li> </ul>	<ul style="list-style-type: none"> <li>• HTI in development becomes inconsistent with the definition of asset, which states that assets possess future economic benefit for the company.</li> <li>• Amortization completed until the end of the concession period does not meet the matching principle concept, because the felled trees not only come from first cycle, but also from the second cycle onwards.</li> <li>• Costs for the establishment and maintenance of immature plants when the ready-to-cut-tree has been expensed in the period incurred, whereas future economic benefits and meet the definition of an asset.</li> </ul>

Source: PSAK 32

Another reason behind PSAK 32 revocation was the inconsistent application with Government Regulation Number 6 of 2007 concerning Forest Governance and Forest Management Planning and Forest Utilization. As explained before, according to PSAK 32 only costs incurred in the first cycle that is capitalized. Meanwhile Government Regulation Number 6 of 2007 explains that as long as the permit is valid, plants produced from HTI are considered as assets of concession permit holders. Then when the permit is no longer valid, immovable property, in this case the land or ground belongs to the state and the plants that were planted on the work area become concession permit holders' property.

Since January 1, 2010, forestry companies have no specific accounting standards in preparing financial statements. Consequently forestry companies must use other relevant PSAKs and if not possible, use the basic framework of the financial statements presentation and disclosures (KDP2LK). Asset recognition of HTI in development and recognition of the production expenses are specific matters in the

forest industry. HTI in development may refer to the concept of fixed assets in PSAK 16 because it has the same characteristics, has long-term benefits. For the short-life plants can refer to PSAK 2 Inventories. The recognition of expense may use matching principles in general KDP2LK PSAK. Precisely the revocation of PSAK 32, makes the financial statements more consistent with other accounting standards and definitions in terms of asset in basic framework.

### 3.2. Forestry Accounting Guidelines in Indonesia

When PSAK 32 was enacted the Ministry of Forestry as a forest industry regulator felt the need to complete these standards with accounting guidelines for forestry management company. Therefore in 1999 issued Financial Reporting Guidelines for Forestry Companies (PPKPH). This guide aims to provide guidelines for application of corporate financial statements completely and comprehensively. The guidelines contain all the technical guidelines for presenting the all financial statements and all components in the financial statements. PPKPH put PSAK

which is relevant to the forestry industry such as PSAK fixed assets, PSAK inventories, investment.

PPKPH comes with the table of forest management activities detailing the components of the costs of each activity and its accounting treatment. Hopefully with these guidelines, forestry companies will be easier to prepare financial statements. For readers of the guidelines will make the financial statements more understandable and comparable across companies. PPKPH also includes detailed guidelines for the disclosure of financial statements, especially for HTI in development, inventory, expenses and segment reporting. PPKPH prepared using primary reference of PSAK 32 and other issued and relevant PSAK for forestry companies.

Changes in the regulation of forestry industry caused record of HTI in development in accordance with PSAK 32 should be reviewed. Revocation of SFAS 32 would make it easier for Ministry of Forestry to draft new accounting guidelines in accordance with the forestry regulations and consistent with existing PSAK. Until 2012, there is no new PSAK issued to replace PSAK 32. IAS 41 which regulates specific biological assets and agricultural products are also not yet published. Consequently companies should apply other relevant and appropriate PSAK with the circumstances of the company. Ministry of Forestry issued the Indonesian Ministry of Forestry Regulation No. P.69/Menhut-II/2009 considering Financial Reporting Guidelines on Production Forest Utilization and Forest Management (DOLAPKEU - PHP2H hereinafter is mentioned with DOLAPKEU). These guidelines are used by entities engaged in the forestry industry in preparing financial statements.

DOLAPKEU is intended for companies that hold forest utilization permits utilization of natural forests and forest plantations, and forest management by the state-owned company (Perhutani). These guidelines are

not intended for conservation and protected forests permits holders. State-owned companies mentioned to manage forest is Perhutani but also Inhutani that manages protected forest, production and conservation do not use these guidelines in preparing its financial statements

The presentation format in DOLAPKEU is different from PPKPH. Format in DOLAPKEU follows the format of financial statements presentation and disclosures guidelines (P3LK) issued by the Capital Market Management Agency (Bapepam). The guidelines explain the general overview of the forest industry, the general concept of financial statements and the recognition, measurement, presentation and disclosure of items in the financial statements. Manual comes with illustrations and examples of forestry company financial statements. Disclosures presented the specific disclosures for plant assets, deferred charges, supplies and expenses. Table of forestry company's activities are part of the guidelines as updated by recent regulatory provisions.

DOLAPKEU divides forestry accounting treatment for Timber Utilization Permits (IUPHHK), Natural Forest (HA) and Timber Utilization Permits (IUPHHK) Industrial Plantation Forest (HTI). But the difference is only related to the recognition and presentation of HTI in development for HTI permits. Natural forests do not have assets like HTI, thus regulations in DOLAPKEU are no different with PSAK 32 and PPKPH.

Provisions in DOLAPKEU have different basic philosophies. HTI in development is not just deferred charges, but it is considered as an asset, so the recording of assets should reflect the condition of the assets in the field. Recognition as an asset in accordance with the definition of asset in basic framework PSAK 1, because HTI in development is a plant asset has benefits in the future. Although using the historical cost basis, yet at least the recording of an asset



should reflect the accumulated costs for planting and maintaining plants in the field. By the time the plant is utilized such costs

must be amortized. General differences between DOLAPKEU and PSAK 32 and can be seen in Table 2.2.

**Table 2.2 Differentiation Between PSAK 32 and DOLAPKEU – PHP2H**

PSAK 32	DOLAPKEU - PHP2H
<ul style="list-style-type: none"> <li>HTI in development is amortized throughout the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>HTI in development is amortized throughout the asset utilization period.</li> </ul>
<ul style="list-style-type: none"> <li>For HTI, costs incurred in the first cycle during the the concession before the first harvest are capitalized into HTI in development account. While the costs that occur after the first harvest no longer capitalized, but are directly charged.</li> </ul>	<ul style="list-style-type: none"> <li>For HTI costs incurred to planting, both in the first cycle and the second cycle onwards in one concession period for each block, from the beginning of forest planting until ready to harvest, are capitalized to HT in development account.</li> </ul>
<ul style="list-style-type: none"> <li>To HTI, depreciation methods can be used is the straight-line method, both for HT which has timber and HT which has non-timber forestry products.</li> </ul>	<ul style="list-style-type: none"> <li>For HTI, there is a differentiation in the application of depreciation model, which is production unit method for HT which has timber and straight-line method for HT which has non-timber forestry products.</li> </ul>
<ul style="list-style-type: none"> <li>There is no reclassification from HTI in development to HTI ready to be harvested.</li> </ul>	<ul style="list-style-type: none"> <li>There is reclassification from HTI in development to HTI ready to be harvested.</li> </ul>

Source: PSAK 32 and DOLAPKEU – PHP2H (reprocessed)

Costs incurred for planting activities, both in the first cycle and second cycle onwards in one concession period for each block, from the initial planting of forests to forest ready for harvest are capitalized into account “HT in Development”. If there is income or expense caused by land clearance process prior to planting, the value is also included in “HT in Development”. After the forest matures, the account “HT in Development” reclassified into “HT Ready to Harvest” which will begin depreciated during the process of harvesting has started and in accordance with the utilization period of these assets. Depreciation method used is divided into two, namely units of production method for HT has timber and

the straight-line method for HT that has non-timber forestry products.

Wood that has been cut is classified as inventory. Measurement of inventories carried prorated from the total cost of production for one year and identification of log that has not been sold. Total cost of production is divided by the amount of wood harvested to arrive at production cost per cubic meter / timber unit. Inventory value is resulted from the multiplication of the amount of wood that has not sold by the cost of production. While the number of units sold is multiplied by the cost of production will be classified in cost of sales. Companies can use the average or FIFO method to calculate the value of ending in-

ventory and the cost of production.

Valuation and presentation of production yield is different for each production yield types:

- o Timber forest products (logs and processed woods)  
Are classified as inventory which is presented based on the lower of cost or net realizable value (LCNRV).
- o Non-timber forest products (such as rubber latex)  
Are classified as inventory which is presented based on the lower of cost or net realizable value (LCNRV).
- o Selling value of forest remaining products (such as: rubber woods harvested by the end of the use of rubber trees)  
Are classified as inventory which is presented at the value of salvage value plus the cost of harvesting.

The next issue regulated in DOLAPKEU – PHP2H is disclosure on the Notes to Financial Statements. For forest products that are classified as inventory and production costs, the things that need to be disclosed together with supplies in general. As for the plantation forests that are specialized and cost of goods sold, the things that need to be disclosed are:

- In the Summary of Accounting Policy Section
  - o Accounting basis on each type of plant, which are Inventory, HT in Development, and HT Ready to Harvest
  - o Accounting policy on reclassification from HT in Development to HT ready to Harvest.
  - o Depreciation method and useful life.
  - o Indirect cost allocation for each planting year.
  - o Accounting policy on borrowing cost.
  - o Basis, method, and the time of income and expense recognition.

- In Financial Statements Items Section
  - o Mutation of HT in Development which are:
    - Beginning balance
    - Additions in current year consisting of direct cost, indirect cost, capitalization amount of borrowing cost, and exchange rate loss due to unusual depreciation
    - Deductions in current period consisting of the transferred value to HT Ready to Harvest and other deductions (such as: fire, transfer function, crops failure, and natural disaster)
    - Ending balance
  - o Details of the carrying value based on location and size of the planting area per year
  - o Information of woods and growth conditions that support the assessment of HT in Development
  - o Permission status and concession period
  - o Details of production costs (added and deducted by beginning and ending balance):
    - Planning
    - Planting
    - Forest maintenance
    - Control of fires and forest protection
    - Forest yield harvesting
    - Fulfillment of obligation to the state
    - Fulfillment of obligation to environment and social
    - Development of facilities and infrastructure
    - Research and development
    - Administrative and general

Ministry of Forest Regulations concerning DOLAPKEU – PHP2H effective starting on January 1, 2010 coincide with the date on which the revocation of SFAS No. 32 took

place. This change will bring considerable impact on the entity's financial statements, particularly on the transfer of HT in Development charged to cost of production to the HT in Development capitalized. If HT in Development charged to cost of production can not be traced, then the entity does not need to make adjustments to retained earnings in the previous period.

### **3.3. Analyses on Financial Statements Presentation and Disclosure**

The financial statements of the company which holds natural and plantation forests concession permits should be submitted to the Ministry of Finance as a regulator. The report submitted to the Directorate of Natural Forests and Industrial Plantation Forests Development. Before the year 2010, the financial statements submitted to section of financial statements evaluation that manage the analysis and evaluation of all financial statements. Since the change of the organization by performing each type of permits, monitoring over the reports has not been done well. For the financial year 2010 and 2011 financial statements have been delivered less than 10%. Access to obtain the data of the financial statements is not easily obtained.

Monitoring by permission types, causing more directed focus on the monitoring aspects of the plant and less attention to aspects of financial reporting. In 2009 the Ministry of Forestry issued Minister of Forestry Regulation No. P.38/2009 concerning Standards and Guidelines for Assessment of Forest Management and Timber Legality Verification on Concession Holders or on Right Forest. The company has been assessed will get PHPL Certification and Timber Legality Certification (LK). PHPL certification is a statement that describes the rate of successful implementation of sustainable forest management. LK Certificate is a certificate given to concession holder or right

forest owner stating that the concession holders and rights owners have followed the timber legality (legal compliance) to obtain timber. Performance assessment is conducted by assessor and independent verification (LP & VI) which is a legal entity owned by state or private accredited to carry out assessment on PHPL performance or LK verification. Certificate valids for 3 years and surveillance is conducted every year. Certificates are used as development material and or extension of IUPHHK by the Ministry of Forestry.

Performance assessment covers all aspects of forest management, including health and financial health aspects of concession permit holders. However for the financial aspect there is no necessity to attach financial statements as supporting documents. Valuation method for company health aspects is performed by field checks to see compliance with the financial statements of public accountant. The health aspect assessed is the availability of capital to invest in the company as well as the addition of long-term assets to finance PHPL. Financial performance can be seen from the aspect of the ability to meet short-term obligations (liquidity), the ability to meet long-term liabilities (solvency) and the ability to generate profits (earnings). Liquidity said to be good if more than 100%-150% and greater profitability than the interest rate. Not specifically described the formula used for the calculation. Compliance aspects of the financial statements in accordance with PSAK 32 as is regarded as one of the indicators in addition to financial ratios.

PHPL performance assessment does not require attachment of financial statements, just explaining that for the financial aspects the data will be verified from the financial statements audited by a public accountant. It is feared that the quality aspects of the financial statements will be ignored because they are not assessed indi-

cators. Ratio values are influenced by the quality of financial statements; if the financial statements are not prepared properly then the ratio can be manipulated so as to obtain a high score. PHPL performance assessment is one of the reasons why concession permit holders are reluctant to submit financial statements, because PHPL certification is considered to have replaced the obligation to prepare financial statements. Especially in PHPL indicators it is not mentioned that financial statements become attachments, and no audit opinion regarded as one of indicators assessed. Government Regulation No. 69 of 2009 on Dolapkeu only set guidelines about preparing financial statements, but does not emphasize the obligation to prepare and submit financial statements to regulators.

### **Deep Analyses on Financial Statement**

Based on the analysis on the financial statements of HA concession permits holders and financial statements of HT concession permits holders in 2007 and 2010, it was found that quality of financial reporting was low. All financial statements were audited by small auditors, not audited by the Big Four public accounting firms instead. The quality of the presentation and disclosures of financial statements were varied, there was one company very fully disclosed financial information, on the other hand there was a company which not fully disclosed its financial information. Several financial statements of which analyses still low and and less deep.

Based on the analysis of financial statements in 2010 by 5 financial reports, it was found one company claimed to use SAK ETAP, a company was under PSAK 32 and three companies used DOLAPKEU. Something very strange because there were still companies that use PSAK 32 whereas PSAK 32 has been revoked and effective starting from January 1, 2010. Even there were two

financial statements in 2011, one of which was mentioned to be prepared under PSAK 32, which has been revoked.

The results of the analysis indicated that there were several companies and auditors did not understand that PSAK 32 has been revoked. Some companies have not been socialized DOLAPKEU so that many companies did not prepare their financial statements in accordance with DOLAPKEU. Starting in 2008 PSAK has started to be revised by adapting IFRS, financial statements are not yet using the new PSAK in preparing the financial statements.

Financial statements of PT. Korintiga Hutani of 2011 audited by KAP Hadori, Sugiarto Adi & Partners, is one of a fairly complete in presenting the reports in accordance with DOLAPKEU. The company has changed the way of measuring and presenting HTI in Development, including classifying HTI Ready to Harvest for plants that were ready for harvest. The accounting policies for recognition and measurement policies of HTI are described in the company's accounting policies. The financial statements are equipped with attachments on forestry activities and details of the forest area are managed in accordance with DOLAPKEU. For the report of 2010 report was audited by KAP Budiman, Pamudji & Partners. When compared to the presentation and disclosure, financial statements of 2011 were more complete and more in line with DOLAPKEU.

Financial Statements of PT. Gunung Meranti year 2010 were audited by KAP Abdulrahman Hasan Salipu with unqualified opinions. In accounting policies it was not mentioned that HTI recording was in accordance with DOLAPKEU, but still referred to PSAK 32 if seen from the treatment of HTI. The financial statements did not explicitly mention to use PSAK or SAK ETAP. HTI was amortized over 20 years. But there was not explained some new PSAK that have been

effective since 2008 as the new standard was applied. Notes to the financial statements more contained supporting data from values in the financial statements, but there was no specific explanation. Deferred charges related to the concession presented in other assets. HTI was also presented in other assets and amortized. HTI values did not change from 2009-2010, but the depreciation expense each year was the same, for the year 2010 by 8% and in 2009 by 5%. The company said that they used PSAK 46 to record the taxes but not seen the presentation of deferred tax assets and liabilities.

Financial statements of PT. Acehnusa Indrapuri for the year ended December 31, 2007 and 2008 were audited by KAP Abdurahman Hasan Salipi with qualified audit opinions. The cause of the exception because the company did not apply PSAK 24 on Employee Benefits and PSAK 46 on Accounting for Income Taxes. The 2007 financial statements presented prepaid tax with a value of 1.875 billion or 79% of total current assets of the company. But prepaid tax did not exist in the 2008 financial year. Prepaid taxes are VAT-in related to the development of HTI facilities. The most dominant asset was HTI in development worth 78% of total assets. The company funded HTI in development by using capital and debt to related parties. The Company has harvested its HTI so reported loss and has accumulated substantial amount of losses. The preparation of financial statements was based on PSAK 32 and PSAK 6 on Accounting for A Development Stage Company. The company was founded in 1992, but has obtained the right to manage HTI in 1997. The company was formed from the divestiture of forest areas previously controlled by PT. Activity tables for developing HTI explanation were presented on the notes to financial statements.

Financial statements of PT. Rimba

Swasembada Semesta for 2008 were audited by KAP EkaMasni, Bustaman and Partners with unqualified opinions. The company neither provided tax liabilities and debt retirement benefits nor mentioned any exceptions of PSAK that were not applied. Concession permit that had been given by the government was HTI, but the company did not have plants ready for harvest, so the company has not been recorded revenues. The company had a liability to the state in form of reforestation contribution in such a large amount; moreover the company also had objected the fees due to owed reforestation. The company did not provide tables forestry activities as specified in PPKPH.

Financial statements of PT. BangunKayu Irian for 2009 were audited by KAP Abdurahman Hasan Salipu with qualified audit opinion. Exceptions were applied because the company did not apply PSAK 24 and 46. The financial statements were prepared using PSAK ETAP, but it was mentioned that the company did not apply PSAK 24 and 46. Because if the use SAK ETAP have taken place, it would not have been needed to use PSAK but only apply SAK ETAP chapter on employee benefits and taxes. The company's main asset was inventories. The company suffered losses and had a significant number of accumulated losses, way far as compared to the company's capital. Funding obtained from the company's debt from its shareholders. The company had a very high production costs, but sales were low so a high level of inventory was presented in the financial statements. The company presented the table explaining HTI activity.

Financial statements of PT. Budi Lampung Sejahtera were audited by KAP Noor Salim, Nurshean and Sinarahardja with unqualified opinions. The company did not apply PSAK 46 and 24 as described in the notes to financial statements, but did not



give any exceptions. The company held HTI concession permit and started to sale planted trees. However corporate income tax looked very small compared to the profit before tax was 6.7% of the company for 2008 and 1.5% for 2007. This percentage was very small compared to the effective tax rate. There was a discrepancy in the description of HTI in development, because the acquisition value of HTI in development reduced down while accumulated depreciation reduced. The company did not provide explanations of the cause of HTI in development impairment and the decreased value of accumulated depreciation. The company did not provide explanations in the notes to financial statements about details of cost of goods sold that was described according to forestry activities. The Company had tax problems of the period of 2003-2006 and later was settled with sunset policy payment in 2008. Company's other payables were very high and changes from 2007 to 2008 was very large, but the company did not explain where the loan came from and reasons behind the changes.

Financial statements of PT. Tunas Sawa Erma for the year ended December 31, 2009 performed agreed-upon procedures (not audit) by KAP Doli Bambang Sudarmadji and Dadang. Financial statements reviews were conducted for summary of realization of the cost of production forest management with TPTI system. This report provided a detailed explanation of the details of costs and supporting information in tabular format of forestry activities. Company's financial statements were not audited although showing better quality by mentioning the development of new accounting standards have been issued in 2009. There were many account reclassification and adjustments to some value in accordance with PSAK. The company had a balance of liabilities on special-related entities in significant numbers. HTI were classified under deferred

charges were not presented in a separate account. The Company presented the tax disclosure in accordance with PSAK 46, but did not explain the employee benefit obligations. However there was revocation on the company's concession permits in March 12, 2009, there was no detailed description of the cause of the revocation of the permit. The problem is, when the permit was revoked, then how recording plant assets that had been done? Today the company still has a balance of HTI and unamortized deferred charges entirely. The company did not only manage the forest, but also had a plantation area with a greater contribution than the contribution of the forest in the company's total revenue. Company's financing mostly came from bank loan, followed by debt from special-related entities, and capital.

Financial statements of PT. Bade Makmur Orissa for the year ended December 31, 2010 were audited by KAP Budiman, Henry, Pamudji and Partners with unqualified opinions. The financial statements were prepared in accordance with DOLAPKEU, resulting from the completion and presentation better than the other financial statements. The financial statements used DOLAPKEU format. Company presented tables and attachment of supporting data related to forestry activities. The company had natural forest concession permits, so it did not record the plant asset. In addition to selling log woods, the company also processed those woods into refined products such as plywood and sawed wood both for export and local sales.

#### **Analyses on DOLAPKEU Application**

Statement of Financial Accounting Standards Revocation (PPSAK) Number 1 explains that the revocation of PSAK 32 on Forestry Accounting started to be effective after January 1, 2010. This means that since 2010 entities have not presented their finan-

cial statements under PSAK 32. Instead, they should use DOLAPKEU - PHP2H standard which started to be effective on January 1, 2010. The authors conducted an analysis on the entity's financial statements that have concession permits, either IUPHHK HA or IUPHHK HTI, for the period from January 1, 2010 to see the practical application of changes in accounting standards and the quality of the presentation and financial statements disclosures of forestry entity.

Samples were directly obtained from the Ministry of Forestry. Total processed samples were seven financial statements comprised of the financial statements of the three entities that held IUPHHK HA for the period 2010 (PT. ArfakIndra, PT. Erythrina Nugrahamegah, and PT. Bade Makmur Orissa), three financial statements of the three entities that held IUPHHK HTI (PT. Gunung Meranti and PT. Wana Perintis) for the period 2010, and one financial statement of an entity that had IUPHHK HTI for the period 2010 and 2011 (PT. Korintiga Hutani). Overall, financial statements were prepared using DOLAPKEU - PHP2H standard. Changes that occur from PSAK 32 to DOLAPKEU - PHP2H did not significantly impact the entity that had IUPHHK HA. Therefore, it would be easier for these entities in applying DOLAPKEU - PHP2H. Meanwhile, for those entities that had IUPHHK HTI required further understanding because there were significant differences.

The financial statements of these seven entities were accompanied by independent auditor reports. Auditors that were hired by the company came from small the Public Accountinf Firm (KAP). Five financial statements got unqualified audit opinion, PT. Erythrina Nugrahamegah audited by KAP Dra Mugowati Sujono, PT. Bade Makmur Orissa audited by KAP Budiman, Wawan, Pamudji & Rekan, PT. Gunung Meranti audited by KAP Abdulrahman Hasan Salipu, and PT. KorintigaHutani audited by KAP

Budiman, Wawan, Pamudji&Rekan in 2010 and KAP HadoriSugiartoAdi&Rekan in 2011. Two other companies got qualified opinion, PT. ArfakIndra audited by KAP Weddie Andriyanto & Rekan and PT. Wana Perintis audited by KAP Drs. Kartoyo & Rekan,

Other reports that should also been attached by the company were management reports. However, only PT. Bade Makmur Orissa and PT. Korintiga Hutani (for 2010 and 2011) that included the management reports in the form of "Timber Forest Product Utilization on Natural Forest/ Plantation Forest lin Produstion Forest Report". This report contained the company's profile and HPH; policy of the company in 2010/2011 onmain activities of HPH; RKT realization and evaluation (for entities that held IUPHHK HA) / RKAP (for entities that held IUPHHK HTI) in 2010/2011, and the evaluation of the development of HTI (special for IUPHHK HTI holders).

According to the notes to financial statements, the authors' team got ownership of these seven entities. Two entities of IUPHHK HA holders owned by individual shareholders, but only one person from each of these entities that dominate the ownership of 80% for PT. Arfak Indra and 96% for PT. Erythrina Nugrahamegah. Percentage of ownership was unchanged from the previous period. Five other entities were owned by corporate shareholders. Shares of PT. Bade Makmur Orissa were owned by PT. Pelayaran Korindo (30%) and PT Trisetia Intiga (70%), shares of PT. Gunung Meranti were owned by PT. Gumply Jaya (70%) and PT. Gunung Meranti Jaya Plywood (30%), shares of PT. Wana Perintiswere owned by PT. Rimba Kaya Indah (60%) and PT. Inhutani V Persero (40%), and shares of PT. Korintiga Hutani were owned by PT. Korindo Ariabima Sari (33% and 17,77% in 2010 and 2011, respectively), PT. Aspex Kumbong (33% dan 17,77% in 2010 and 2011, respectively),

Panindo Investment Pte, Ltd. (34% dan 34,33% in 2010 and 2011, respectively), and PT SIG Plantation Pte., Ltd. (30,15% in 2011).

Based on DOLAPKEU - PHP2H, entity that hold IUPHHK HTI related account of biological assets on the Statement of Financial Position, HT in development, of which is costs capitalization that incurred for planting activities, both in the first cycle and second cycle onwards in one concession period for each block, from the initial planting to ready to harvest, and HT Ready to Harvest which is the reclassification of the HT in Development. However, of the four financial statements of entities that held IUPHHK HTI analyzed, only two entities that performed the presentation, PT. Wana Perintis and PT. Korintiga Hutani (in 2011). This indicated that the two companies had been able to keep pace with changes from PSAK 32 to DOLAPKEU - PHP2H. The two other entities did not directly present HT in Development account and HT Ready to Harvest account, PT. Gunung Meranti merged plant assets into the account of Other Noncurrent Assets then presented in Notes to Financial Statements. Meanwhile, PT. PT KorintigaHutani (for 2010 financial statements) included Plant account as a part of Investment account, placed between Current Assets and Noncurrent Assets. These accounting treatments need special attention because the plant asset is a major production company, so it should be reflected directly in the Statement of Financial Position.

The next thing to note from plant assets is capitalized costs through HT in Development and amortization expense of HT Ready to Harvest. In its financial statements, the entity simply explained that HT in Development consists of costs that have occurred since the time of planting until the crop is ready for harvest. No statement explaining whether the cost is only for the first

cycle (according to PSAK 32) or cost on the first cycle onwards in one concession period for each block from the beginning of the plantation until the forest is ready to be harvested (according to DOLAPKEU-PHP2H). Similarly with information related to amortization period was not explained if used in concession period (in accordance with PSAK 32) or the useful life of the asset (in accordance with DOLAPKEU-PHP2H). For the amount of accumulated amortization, supposedly for financial statements from 2010, there was no accumulated amortization as amortization recently started when DOLAPKEU - PHP2H were applied where there was a reclassification to HT Ready to Harvest that needs to be amortized. However, there was one entity that included plant assets on account of Other Noncurrent Assets stating that amortization plants have been conducted since 2007. There are two indications can be drawn from this: an entity which applies DOLAPKEU - PHP2H retrospectively or entity which does not follow the current PSAK 32 standard by the time has not been revoked.

In their financial statements, these entities (HA IUPHHK and IUPHHK HTI holders) are also supposed to provide attachments of lists of HPH, liabilities, revenue / sales and expenses. However, of the seven entities whose financial statements were analyzed, only three of the four entities that attached the attachment, PT. ArfakIndra, PT. Bade Makmur Orissa, and PT. Gunung Meranti. The rest just attached two or three of the four attachments. Of the existing attachments had also not yet completely and comparatively presented.

The financial statements of the entities engaged in forestry industry also need to show a statement and details of duties directly related to the forestry industry Provision of Forest Resources (PSDH) and Reforestation Fund (DR). For details of PSDH and DR liabilities of three IUPHHK HA hold-

ers analyzed, all explained their PSDH and DR liabilities. PSDH and DR liabilities owned by PT. ArfakIndra and PT. Erythrina Nugraha megah showed a declining figure but they did not explain the cause of this decline. On the other hand, PT. Bade Makmur Orissa did not present a comparative figure of PSDH and DR thus the changes could not be seen. Details of PSDH and DR liabilities on the four entities' financial statements that held IUPHHK HTI, PT. GunungMeranti and PT. KorintigaHutani (for financial statements 2010 and 2011) did not provide an explanation of the two liabilities, while PT. Wana Pioneers only described DR liability, the value at zero dollars having been paid in the current year. This needs to be considered further by the entity, because both liabilities are directly related to the forestry industry, so even though its value is zero rupiah should continue to be presented to make it more informative for users of financial statements.

Other obligations should also be specified by the entity are tax liabilities and liabilities to related parties. For the tax liability, the entire entity provided explanations on the tax, which consists of income tax, VAT and the property tax. For liabilities to related parties, there were two financial statements did not present debt to related parties, PT. Bade Makmur Orissa and PT KorintigaHutani (2010 financial statements). PT. Bade Makmur Orissa presented its liability to PT. Korindo which has amount of less than 1% of the total debt on the Other Liabilities. In addition, there was no other explanation relating to related party transactions, whereas the main timber buyer was PT. Korindo Abadi. While PT Korintiga Hutani has just presented its liability to related parties of 0.1% of total liabilities in 2010 financial statements. Then, Notes to the Financial Statements (2011) of PT. Korindo explained that the creditor of the company was PT. Korindo Ariabima Sari which was a

shareholder of the company. Based on the data in the Notes to Financial Statements three other entities, majority owners were both major creditors of the company. At PT.ErythrinaNugrahamegah, 60% of the debt came from related parties were the majority shareholder (individuals) and the rest to PT. MendawaiPutera. On PT Gunung Meranti, 78% of non-current debts to related parties came from PT. Gumply Jaya and 69% of current debts to related parties came from individuals. At PT.WanaPerintis, debt to related parties was only to PT Karya Indah Rimba used to finance operations. Debtsof 49% of total liabilities emerged gradually since the company has not received additional amenities of DR loan from government. While PT. ArfakIndra presented only debt to related parties amounting to 54% of total liabilities (increased by 83% from the previous year) on the Statement of Financial Position, but it did not explain this in the Notes to the Financial Statements. This made the reader of financial statements could not get a clear and complete information on who were the creditors of the company.

### General Analyses Results

According to deep analyses on financial statements of HTI and HA concession permits holders, we wrote down special notes as follows:

- a. Almost all companies were audited by small accounting firms that did not master yang PSAK, SAK ETAP dan special provisions in PSAK 32, PKPH, and DOLAPKEU very well. This can be proven from confusion of entities in applying PSAK or SAK ETAP. Attachments of special forestry activities in accordance with PPKPH and DOLAPKEU were not all fully presented in accordance with the existing regulations. In the financial statements there were not mentioned new developments of

PSAK hin accordance wit IFRS convergence. Descriptions of the accounting policies were incomplete especially for forestry companies' accounts. Application of accounting standard for debt, income taxes, employee benefits, specifically forestry accounts were mostly not in accordance with accounting standards and guidelines

- b. Most companies recorded loss in their financial statements, since some companies were still on the development stage for HTI. For some companies that have started production process of those that held natural forest concession permits, have already booked some profits.
- c. Most of fundings came from affiliated entity, both shareholders and other affiliated companies. However the details explanation regarding the liabilities did not exist in notes to financial statements.
- d. PSAK 32 and PPKPH have mandated details provision on production costs in accordance with forestry activities and tables that must be completed as parts of notes to financial statements. In practice, most companies did not give complete attachments and did not explain the details of their forestry activities. This might be caused by the lack of understanding on accounting guidelines and the auditors also did not have sufficient knowledge on forestry industry.
- e. Most of corporate taxes were problematic. This can be seen in the value of tax liabilities or prepaid taxes which were paid in a very high number in one period and the next period did not exist. Some prepaid taxes are VAT accumulation of several years before when the possibility restitution was very small. Several companies recorded withholding tax liabilities in the large amount;

this is most likely due to negligence of the company to pay employee tax and other tax cuts. For corporate taxes, the value of tax paid relatively small compared to the tax rate. Most companies did not apply PSAK 46 in preparing their financial statements. Some companies that held concession permits had potential tax problem that may result in future tax audits.

- f. Analysis of the application of DOLAPKEU showed that compliance to DOLAPKEU was still low. Many companies and auditors did not understand DOLAPKEU so that the guidelines have not been applied consistently by companies.

## 4. Conclusions and Feedbacks

### 4.1. Conclusions

Indonesia had had accounting standards for forest concession permits holders that was PSAK 32. However, PSAK 32 was revoked effective on January 1, 2010, while the successors have not been issued yet. Financial Accounting Standards Board (DSAK) has not adopted IAS 41 on Agriculture in PSAK, so that the forest industry will use fixed asset accounting standards for recognition and measurement of plant assets.

Government has issued revision of forestry regulation by issuing Government Regulation Number 6 of 2007 which states that the plant is the company's assets. As the consequences of these regulations, there is the need for appropriate and accurate record of plant assets in order to reflect the future economic benefits which come from the assets. Current practice of HTI in development asset recording do not reflect the accumulated cost of the HTI in the field but rather reflect the deferral cost of planting at the first cycle. Thus, regulation in PSAK 32 and PPKPH which were valid until the year 2009 did not correspond to the nature of



the assets in accordance with Government Regulation Number 6 of 2007.

The Ministry of Forestry issued DOLAPKEU in the late 2009 to be used as guidelines in preparing financial statements of forestry companies. However DOLAPKEU needs updating due to some provisions has been inconsistent with current accounting standards. DOLAPKEU does not mention which standards to be applied, whether SAK ETAP or PSAK. Or the use of both standards follows the general rule, if the company bears significant public accountability then it must apply PSAK and if the company does not bear significant public accountability SAK ETAP would be good to be applied instead.

In practice, the quality of forest companies' financial reporting was relatively low and diversified. The ability to master accounting standards and guidelines by the companies and auditors is still lacking. Presentation of plant assets are classified as deferred charges and not as a separate asset. Presentation of detailed information and the production costs and some tables which are required in PPKPH and DOLAPKEU were not fully presented. The reliability of financial statements is still questionable, mainly related with the value of taxes, liabilities and receivables with affiliated parties, and plants' value.

#### 4.2. Feedbacks

Based on regulation analyses results, accounting standards, and forestry accounting practices in Indonesia, there are some components need considering:

- a. Ministry of Forestry as a regulator needs to take the quality of financial reporting of forestry companies into account. The financial statements are not only received and documented, but also need to be reviewed whether the stated value is right, numbers presented are consistent with data on plan-
- tations, and the amount of contributions reported by the companies as well.
- b. Special units in Ministry of Finance are needed to manage and analyze these data. It will be better if the managements separated into another function yet it is focused on financial statement analyses. The result from analyses undertaken must be commented and feedbacks to be explained to companies so the companies will be able to perform improvements for subsequent financial statements.
- c. Financial statements should be attached to forestry companies annual report, for instance by PHPL report, fulfillment of obligation to the state report, thus companies are more encouraged to prepare financial statements.
- d. DOLAPKEU needs to be revised in order to keep in pace with the latest updates on PSAK which has already adopted IFRS. DOLAPKEU should also give some alternatives on financial statements preparation in accordance with SAK ETAP. Annual updating mechanisms are needed so that the progress on regulations and accounting standards can be accommodated in DOLAPKEU.
- e. Ministry of Forestry has to undertake accounting guidelines socializations more often. The socializations are intended for the rights holders and auditors so that the financial statements prepared are ascertained to be in accordance with the current accounting standards and guidelines.
- f. Financial statements preparers should strive to understand and use financial accounting guidance for concession permits holders in preparing the financial statements by adjusting to the current financial accounting standards
- g. It is very important for the auditors

study the industry and regulations related to the field of business of clients audited. Mastery of the latest accounting standards and accounting industry guidelines needs to be improved so that financial statements could be presented and disclosed in accordance with accounting standards and guidelines.

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Undang-Undang No.41 tentang Kehutanan UU.

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