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## The Analysis and Implementation of Psak 71 (Ifrs 9): Financial Instruments at PT X for the Year 2019

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**Abstract**

*PSAK 71 was issued by the Indonesian Accounting Standard Board (DSAK-IAI), as an adaptation of IFRS 9: Financial Instruments to replace the old accounting for financial instruments standard, PSAK 55 (IAS 39). The new accounting standard is implemented in Indonesia effective from January 2020. "PT X" is a private company in Indonesia that runs in the heavy equipment industry and was chosen to be the research subject. This research is conducted to identify the financial impacts arised from PSAK 71 (IFRS 9) implementation towards Statement of Financial Position, Income Statement and Statement of Cash Flow of PT X in 2019 compared to the previous accounting standard PSAK 55 (IAS 39).*

*The result of this research shows that there is no significant impact towards PT X financial statements, specifically its Statement of Financial Position, Income Statement and Statement of Cash Flow.*

*Keywords: PSAK 71, IFRS 9, Accounting for Financial Instruments, Expected Credit Losses, Impairment, Financial Statements.*

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## I. INTRODUCTION

The heavy equipment demand of a country is massively affected by its economic growth and development. With the increasing demand of heavy equipment in the market and the complexity of the heavy equipment business as it is commonly highly cyclical and capital-intensive, the capital management in the heavy equipment industry is important. Financial instruments, which have an ability to increase a company's financial asset, are one of the ways of effective capital management. Financial instruments are defined as cash, an ownership interest or a contractual right to receive or obligation in form of cash or other financial instruments (Kieso, Weygandt, and Warfield, 2016: 226). It can be used to finance and often to expand the entities' operation by selling their equity securities and debt securities (Spiceland, Sepe and Nelson, 2013)

However, the accounting treatment for financial instruments has been criticized for being too complex and not fit to the real business requirement (HUIAN, 2019). Not only that, reflecting on the 2008 financial crisis, the old accounting standard uses backward looking, rather than forward looking which often lacks anticipation and the provision recognition is "too little and too late". To answer the criticisms, the International Accounting Standard Board (IASB) replaced IAS 39 Financial Instruments: Recognition and Measurement with International Financial Reporting Standard 9 (IFRS 9) Financial Instruments. Indonesia adapted the new change in regulation with PSAK 71, replacing the PSAK 55 as the old regulation.

PSAK 71 brings major changes to: (1) classification & measurement (2) impairment (3) hedge accounting. However, as noted by the Indonesian Accountants Association (IAI) the most significant impact due to this change is the method in determining the provision for loan impairment (IAI, 2016).

Major companies will be facing significant impacts to their financial reports as the result of the replacement of the standard, including PT X, one of a heavy equipment company dealers in Indonesia. These companies are required to provide more provisions on their financial assets, receivables and other types of investments, moreover on the perspective of financial assets including receivables, investments, long term loans and equity investments. It is important for a firm to understand the new standard and the affected areas in order to do better in financial planning and to be successful in adapting to the changes. With sufficient planning, however, the changes that PSAK 71 brings might enhance the efficiency of the financial reporting process, minimizing costs and provide a great opportunity for balance sheet optimization. It is strongly believed that through the changes in the regulation, there will be an

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improvement of the quality of the financial information provided. At the end, this will bring mutual benefits to the investors as they gain more trust towards the company.

This research is conducted to see the implementation of the new standard established, PSAK 71: Financial Instruments in convergence of IFRS 9, at PT X, a heavy equipment company dealer in Indonesia in 2019 that used the old accounting treatment for financial instruments standard, the PSAK 55 or IAS 39.

Therefore, the main objectives of this research are:

(1) To identify the financial impact towards the assets, liabilities and equity in the Statement of Financial Position if PT X had implemented PSAK 71 (IFRS 9) in year 2019 and analyzed the comparisons of the actual outcomes.

(2) To identify the financial impact towards the earnings before income tax (EBIT), Net Income and Other Comprehensive Income in the Income Statement if PT X had implemented PSAK 71 (IFRS 9) in year 2019 and analyze the comparisons of the actual outcomes.

(3) To identify the financial impact towards the Statement of Cash Flow if PT X had implemented PSAK 71 (IFRS 9) in year 2019 and analyze the comparisons of the actual outcomes.

## II. LITERATURE REVIEW

### A. PSAK 71: "Instrumen Keuangan" & IFRS 9: "Financial Instruments"

IFRS 9: Financial Instruments (equivalent to PSAK 71) is the replacement of IAS 39 "Financial Instruments: Recognition and Measurement" (equivalent to IAS 39). As an adaptation of the international accounting standard, the Indonesian Accountants Association's Standards Board created Indonesian Financial Accounting Standards (PSAK) 71, which is effective on January 1, 2020.

The purpose of PSAK 71 (IFRS 9) is to present useful and relevant financial information to the user so that they can make better assessment regarding the timing, monetary value and the uncertainty of entities' future cash flows especially to financial assets and liabilities (IASB, 2016, p. 5). Under PSAK 71, the impairment method requires entities to measure the loss allowance equal to lifetime expected credit losses (ECL) for all financial instruments with significant increases in credit risk have existed at the date of initial recognition.

## B. Overview in Changes

One of the key changes in the accounting for financial instruments, refers to the shift in IAS 39 which was a rules-based standard to certain principles in IFRS 9 which is a principle-based standard and PSAK 71 is adapted to this change. PSAK No. 71 uses the expected loss method to establish provision for a possibility of change in credit risk estimation due to changes in conditions that will decline in the future (IAI, 2016). Therefore, PSAK 71 (IFRS 9) is made with an objective to establish principles to report financial assets and financial liabilities that will print useful and relevant information to financial statement users for the assessment of the entity's future cash flow. Any financial instrument that is in-line with PSAK 50 "Financial Instruments", PSAK 55 "Financial Instruments: Measurement and Recognition" and PSAK 60 "Financial Instruments: Disclosure" or as regulated in IAS 39 are included in the scope of PSAK 71 (IFRS 9). In general, the standard covers all types of financial instruments, including payables, receivables, investments both in bonds or shares, derivatives and certain purchase or sale contracts of non- financial assets that can be settled in cash or other types of financial instruments. (PricewaterhouseCoopers, 2018).

In summary, the overview of comparison between PSAK 55 (IAS 39) and PSAK 71 (IFRS 9) can be seen on the table below:

Table 2.1: Differences between PSAK 55 (IAS 39) and PSAK 71 (IFRS 9).

Source: Huian (2012).

<b>Category</b>	<b>PSAK 55 (IAS 39)</b>	<b>PSAK 71 (IFRS 9)</b>
The purpose of the standard	The change will apply to all financial assets with a few exceptions	Same treatment applied.
Initial assets recognition	Happen at the time when an organization becomes a party to the contractual provisions	Same treatment applied.
Initial measurement	The fair value including transaction costs (not held for trading purposes)	Same treatment applied.

Subsequent Measurement	The fair value. The amortized cost value. Costs	Amortized Cost, Fair Value Through Other Comprehensive Income (FVOCI), Fair Value Through Profit & Loss (FVPL)
Types of Classification	Fair value through profit loss (FVTPL), Held-to-Maturity, Loans and Receivables, Available for Sale	Amortized Cost, Fair Value Through Other Comprehensive Income (FVOCI), Fair Value Through Profit & Loss (FVPL)
Equity Instruments	All equity instruments available for sale, are classified at “fair value through other comprehensive income”.	The fair value of the instrument for trading purposes. The irrevocable choice for the category through other comprehensive income.
Impairment	Several models of impairment. Model incurred losses	A unified model of impairment, which applies to all financial instruments. The model of expected credit loss.

a. Classification and Measurement

PSAK 71 (IFRS 9) introduces a two-step approach in classifications of all types of financial assets, which are either measured at fair value or amortized cost depending on the “business model test” and the “contractual cash flow test” to determine whether these financial instruments are measured at fair value or amortized cost. Financial assets are held in order to collect contractual cash flows. The business model of an entity is determined based on how a group of financial assets is managed together to

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achieve a business goal. In accordance with PSAK 71 (IFRS 9), there is a necessary condition in classifying loans or receivables at Amortized Cost or FVOCI. This can be done by determining whether the financial asset is a part of a group or portfolio that is held by the management which the objective can differ whether to collect contractual cash flows only or to collect contractual cash flows and to sell. The classification between these objectives vary; the financial assets that are held to provide contractual cash flows is measured at Amortized Cost, whereas if the financial assets are held to both provide contractual cash flows and to sell is measured at FVOCI. If neither, it will be measured at FVPL.

The 3 main measurement categories for financial assets are:

#### Amortized Cost

According to PSAK 71 (IFRS 9); Financial asset is measured at amortized cost if the financial asset is held with an objective to collect the contractual cash flows ("hold-to-collect") and the terms of the contractual financial asset can give rise to cash flow that are solely payment of the interest and principal on the outstanding principal amount, based on the SPPI criterion. In addition, the amortized cost category is subjected to impairment and its gain or loss measured at amortized cost should be recognized when the instrument is derecognized or reclassified.

#### Fair Value through Profit or Loss (FVPL)

According to PSAK 71(IFRS 9); Financial asset is measured at Fair Value through Profit or Loss (FVPL) if the financial asset is not measured at amortized cost nor Fair Value through Other Comprehensive Income (FVOCI). Additionally, companies may also designate FVTPL financial assets under the fair value option to reduce accounting mismatch from liabilities measurement and recognition.

#### Fair Value through Other Comprehensive Income (FVOCI)

According to PSAK 71 (IFRS 9); Financial asset is measured at fair value through other comprehensive income (FVOCI) if the financial asset is held with an objective to collect the contractual cash flows and selling financial

#### b. Impairment

Impairment rules has to be one of the topics that received most criticisms in financial instruments. The current accounting model is considered too slow in recognizing

potential losses that may arise as it only recognized the provision after the events had occurred. The new standard requires "reasonable and supportable" forward-looking information to consider and take into consideration. Namely under PSAK 71 (IFRS 9), the recognition of impairment losses in the financial statement should be made on the more complete information basis (PricewaterhouseCoopers, 2019).

#### Expected Credit Loss

In accordance with PSAK 71 (IFRS 9), expected credit losses are defined as a probability-weighted estimated amount of cash shortfall on the financial instrument. Expected credit loss model is prepared due to the fact that every loan and receivable has some risk of defaulting in the future and must be recognized from the moment of the acquisition of the assets/liabilities itself. This method contains a new impairment model resulting in earlier recognition of losses, known as expected credit loss model (PricewaterhouseCoopers, 2014).

Table 2.2 Comparison of PSAK 55 (IAS 39) and PSAK 71 (IFRS 9): Incurred vs Expected Credit Loss. Source: PT Ernst & Young Indonesia (2019)

	<b>Probability of Default (PD)</b>	<b>Exposure at Default (EAD)</b>	<b>Loss Given Default (LGD)</b>
PSAK 55 (IAS 39) Incurred Loss	Portfolio Allowances	Balance Sheet Exposure	DCF & Collateral
	What is the probability that a counterparty has defaulted?	What is our exposure today?	How much of this are we likely to lose?
PSAK 71 (IFRS 9) Expected Credit Loss	Future Loss	Future Performance	DCF & Collateral
	What is the probability that a counterparty will default?	What will be our exposure at this point of time?	How much of this will we likely to lose?

In this case, PSAK 71 (IFRS 9) uses where the institution's loan book is reserved for using three phases of credit deterioration which is majorly known as the 'three-bucket' model.

Table 2.3 Three-bucket Model Source: PricewaterhouseCoopers (2014)

Change in Credit Quality Since Initial Recognition		
Recognition of expected Credit losses		
12 month ECLs	Lifetime ECLs	Lifetime ECLs
Interest Revenue		
Effective Interest/Profit on Gross Carrying Amount	Effective Interest/Profit on Gross Carrying Amount	Effective Interest/Profit on Amortised Cost Carrying Amount (ex. net of credit allowance)
Stage 1	Stage 2	Stage 3
Performing (Initial Recognition)	Under Performing (Significant increase in credit risk since initial recognition)	Non-performing (Credit impaired assets)

### C. Hedge Accounting

Hedge accounting is defined as rules that were set to prevent entities that use hedging instruments from unjustifiable financial or economic variances in earning volatilities (Bernhardt, Erlanger and Unterrainer, 2014). The application of hedge accounting is an optional alternative as the previous regulation. The overall structures and requirements regulated in PSAK 71 (IFRS 9) is adapted from PSAK 55 (IAS 39). However, PSAK 71 allows the application of hedge accounting in more circumstances compared to the old regulation. Additionally, based on Ernst & Young (2014), PSAK 71 requires the external parties to participate in the financial instruments, this means that it is allowable for entities to recognize additional hedging items, such as: assets or liabilities, firm commitments that are unrecognized and highly probable forecast transactions and net investments in foreign operations.

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### III. RESEARCH METHOD

This research will be conducted specifically at a company in Jakarta that runs a business in a heavy equipment industry. The company used PSAK 55 (IAS 39) accounting standards for financial instruments. The reason for choosing this company is due to the availability of information and the company criteria is in accordance with the concept of the case study. The sample that will be taken for this research is PT X's company financial data, including Statements of Financial Positions, Income Statement and Statement of Cash Flow of the year 2019.

As mentioned previously, the independent variable of this search is PSAK 71 (IFRS 9) - Financial Instruments, whereas the dependent variables are the Income Statement, Statement of Cash Flow, and Statement of Financial Position from the year 2019. The dependent variables mentioned will be the main outcome to make the conclusion of the research.

There are 3 hypotheses mentioned:

- H1: The implementation of PSAK 71 (IFRS 9) will make significant changes towards the Statement of Financial Position of PT X in comparison to the company's current method.
- H2: The implementation of PSAK 71 (IFRS 9) will make significant changes towards the Income Statement of PT X in comparison to the company's current method.
- H3: The implementation of PSAK 71 (IFRS 9) will make significant changes towards the Statement of Cash Flow of PT X in comparison to the company's current method.

### IV. RESULT & ANALYSIS

#### A. Implementation of PSAK 71 (IFRS 9)

To begin with, PT X adapted PSAK no. 50 (revised in 2014) "Financial Instrument: Presentation", PSAK no. 55 (revised in 2014) "Financial Instrument: Recognition and Measurement" and PSAK no. 60 (revised in 2014) "Financial Instruments: Disclosure" for their financial statements in 2019. The classification of financial instruments can be categorized as financial assets and financial liabilities.

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a. Scope and Gap Analysis

Based on PT X's statement of financial position for the year ended 2019, the accounts that are regarded as financial assets are net account receivables which include third-party and related parties receivables, other receivables which include third-party and related parties receivables, marketable securities, short term investments, cash and cash equivalent namely the deposits held and marketable securities. There will be some significant changes towards the listed financial assets in PT X financial statements, especially in the way the entity classifies their financial assets and the calculation method of impairment of financial assets.

Whereas for Gap Analysis, inquiry of the management of PT X is conducted. Moreover, the financial assets of PTX are classified based on management intention. The financial asset provision is made with an incurred loss method, where the provision will be created when the financial assets value has declined. The financial asset provision is made with the expected credit loss method, where the provision is made for the lifetime of the financial asset. The life of financial assets will begin at the initial recognition date and as long as the asset is held by the company.

In conclusion, PT X is required to update its accounting policy for Financial Instruments to PSAK 71 (in equivalent to IFRS 9).

b. SPPI and Business Model Test

After conducting both SPPI and Business Model Test on PT X's Financial Assets, conclusions on classification and measurement as regulated in PSAK 71 (IFRS 9) can be explained as below:

Cash & cash equivalents: The financial asset classified in the cash & cash equivalent account is the time deposit owned from the DBS Bank Ltd and Sumitomo Mitsui Banking Corporation. Based on the inquiry and the discussion with the management, this type of time deposit is held to collect contractual cash flow in the form of interest revenue. The contract of the time deposit cannot be sold until the maturity period. For that reason, the time deposit that PT X owned will be classified and measured in amortized cost.

Accounts Receivables: The financial asset classified in accounts receivable account arises from the sales orders issued by the sales team. Based on the inquiry and the discussion with the management, the on-account sales will

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provide future cash inflow to PT X in the form of future payment received from the customers. Additionally, the internal policy of PT X prefers not to factor the outstanding accounts receivables so they will not be sold. For that reason, the accounts receivables that PT X owned will be classified and measured in amortized cost.

Other receivables: The financial asset classified in other receivables accounts arises from the sales orders issued by the sales team but not classified as accounts receivables. Based on the inquiry and the discussion with the management, the on account sales will provide future cash inflow to PT X in form of future payment received from the customers. Additionally, the internal policy of PT X prefers not to factor the outstanding other receivables so they will not be sold. For that reason, other receivables accounts that PT X owned will be classified and measured in amortized cost.

Long-term Receivables from related party: The financial asset classified as Long-term receivables account arises from the sales orders issued by the sales team that comes from PT X's subsidiaries or affiliates that will due in more than one accounting period. Based on the inquiry and the discussion with the management, the on account sales will provide future cash inflow to PT X in form of future payment received from PT X's subsidiaries and affiliates. Additionally, the internal policy of PT X prefers not to factor the outstanding other receivables so they will not be sold. For that reason, Long-term Receivables from related party accounts that PT X owned will be classified and measured in amortized cost.

Other Non-current Asset (refundable deposit): The financial asset classified as other receivables account arises from the General Affairs department in PT X from the building deposit. This deposit will provide future cash inflow to PT X when the contractual agreement has ended, in this case it is the usage of the building. For that reason, Other Non-current Assets that arise from a refundable deposit account that PT X owns will be classified and measured in amortized cost.

Marketable Securities - Bonds: The financial asset classified as marketable securities arises from the purchase of PT Chandra Sakti Utama Leasing (CSUL) bonds through Bahana Securities. This type of bond owned by PT X provides cash inflow in form of coupon payment and principal payment at the maturity date. Additionally, it is available to be sold even before the maturity

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date therefore it is tradable in the market. For that reason, Marketable Securities - Bonds of PT CSUL accounts that PT X owned will be classified and measured in FVTOCI.

Investments in stock: The financial asset classified as marketable securities arises from the purchase of stocks of PT Mahadana Dasha Utama for 0.02%. This type of stock owned by PT X will increase the income of PT X in the form of unrealized gain or loss and will be realized when the stocks held are sold, without being said, the stocks held are tradable in the market. For that reason, Investments in stock that PT X owns will be classified and measured in FVTOCI.

i. Impairment

To begin with, there are 4 stages that need to be performed in calculating provisions for Receivable reserve. The first step will be to review the business segmentation. PT X classifies its business into 2 business segments, which are Retails (dealership) and Services (leases). In retail business, the estimation is unlikely to be done at individual borrower level, rather being incorporated in a collective assessment. Up to the present time, PT X supervises the collectability of the receivables, including long-term receivables and other receivables through collective assessment due to the similarity of credit risk characteristics.

Calculation of Receivable Provision and Receivable Provision Modelling

Cash & Cash Equivalents: Time Deposit

As of December 31 2019, PT X has 3 time deposits in DBS Bank Ltd for USD 2,730,000 with 1.7% interest rate which will be due on January 3rd 2020, USD 3,900,000 with 1.75% rate and USD 7,150,000 with 1.71% rate both will be due on January 21st 2020. According to Pefindo, DBS Bank Ltd is rated at idA. Additionally, PT X has a time deposit in Sumitomo Mitsui Banking Corporation for USD 1,950,000 with a 1.72% interest rate which will be due on January 21st 2020.

The Vasicek model to determine the Bank's Probability of Default (PD) is calculated with macroeconomic assumptions, in this case it is made using the historical data of Indonesian GDP for 10 years and Standardized Macroeconomic Factor (SMEF). From the Pefindo rating and the macroeconomic factors used, according to the model, it is found that the PD for the time deposits in DBS Bank Ltd is 13%. Whereas for the Loss Given Default (LGD) is set at 45% for senior claim. The formula to calculate the ECL for time deposits in DBS Bank Ltd is as below:

$$ECL_{it} = PD_{it} * LGD_{it} * EAD_{it}$$

$$ECL_1 = [1 - [(1 - 0.0013)^{\frac{360}{12}}]] * 0.45 * 2,730,000 ECL_1 = 13$$

Therefore, ECL for Time Deposit amounting USD 2,730,000 in DBS Bank Ltd is USD 13. ECL for Time Deposit amounting USD 3,900,000 in DBS Bank Ltd is USD 130, and ECL for Time Deposit amounting USD 7,150,000 in DBS Bank Ltd is USD 238 and for Sumitomo Mitsui is USD 65.

Table 4.1 Summary of PT X's Time Deposit ECLs

	Principal	PD	LGD	ECL
<b>DBS Bank Ltd</b>	2,730,000	0.13%	45%	13
<b>DBS Bank Ltd</b>	3,900,000	0.13%	45%	130
<b>DBS Bank Ltd</b>	7,150,000	0.13%	45%	238
<b>DBS (total)</b>	13,780,000			380
<b>Sumitomo</b>	1,950,000	0.13%	45%	65
<b>Subtotal</b>	<b>15,730,000</b>			<b>445</b>

## 2. Marketable Securities

As of December 31 2019, PT X has 1 bond of Chandra Sakti Utama Leasing (CSUL) for USD 2,847,132 with 10.5% interest rate due on July 11th 2020. According to Pefindo, CSUL bond is rated at idA. The Vasicek model to determine CSUL Probability of Default

(PD) is calculated with macroeconomic assumptions, in this case it is made using the historical data of Indonesian GDP for 10 years and Standardized Macroeconomic Factor (SMEF). From the Pefindo rating and the macroeconomic factors used, according to the model, it is found that the PD for the time deposits in CSUL is 13%. Whereas for the Loss Given Default (LGD) is set at 45% for senior claim.

$$ECL_6 = [1 - [(1 - 0.0013)^{\frac{193}{360}}]] * 0,45 * 2,847,132$$

$$ECL_6 = 870$$

Therefore, ECL for CSUL's bond held by PT X with the principal amount of USD 2,847,132 is USD 870.

### 3. Accounts Receivable: Trade Receivable

The calculation of the AR Provision roll rate or collection rate in the average of ongoing 2 years in specific terms of every aging bucket. For the receivables that are more than 1 year, the PD will be allocated 100%, but the LGD is not 100%. a 24 months historical timeline of trade AR Aging bucket will be chosen to calculate the roll rate and the average of uncollected receivables will be found. From the calculation conducted out of the total USD 185,821,578 population, the provision calculated based on PSAK 55 (IAS 39) is USD 11,596,319 whereas the provision calculated based on PSAK 71 (IFRS 9) is USD 11,570,838. The provision takes 6.2% part of the Trade AR population.

#### PSAK 71 (IFRS 9) Receivable Assessment

Summary of PT X Trade AR Provision	
PSAK 55	11,596,319
PSAK 71	11,570,838
	25,481
	USD

### 4. Accounts Receivable: Related-party Receivable

As of May 31st 2015, PT X has receivables amounting USD 15,125,422 from completion of service and maintenance and delivery of products to PT SS, which is one of PT X's subsidiaries. The mentioned amount consists of: Principal receivable for USD 13,782,600 and deferred late-payment fine for USD 1,342,822. These receivables are agreed to be

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paid quarterly by PT SS. IFRS 9 requires PT X to create multiple scenarios to produce probability-weighted lifetime expected credit losses of financial assets that is determined by evaluating a range of possible outcomes, including the upside and downside economic scenarios and potential threats. Additionally, as of Q4 2019, As of Q1 2019, the principal of the outstanding receivable is USD 14,813,460.

The scenarios that PT X made are:

1. If the receivable is paid 100% according to the agreed schedule, the payment period will be carried on and will end in Q1 2024, with USD 3,832,805 provision.
2. If the receivable of PT SS is carried over and adjusted to be paid in 9 quarters starting from Q1 2020 - Q1 2022; the evidence used to support this opinion is that PT SS has failed to repay its debt for 6 quarters in 2017-2018, with USD 1,825,039 provision.
3. If the receivable of PT SS is carried over and rescheduled to be paid starting from Q4 2019 - Q3 2025, with USD 4,264,985 provision.

The weight given shows the likelihood of each scenario to happen. After conducting discussion with the management, it is more likely for scenario 1 to happen. From the explanation given above, PT X chose the first scenario and therefore the recorded amount the provision that needs to be recorded for PSAK 71 (IFRS 9) implementation is USD 3,832,805. This provision amount will be adjusted at the end of the reporting period.

Additionally PT X also has receivable in Indonesian currency. As of May 31st 2015, PT X has receivables amounting IDR 458,878,379,721 with these possible scenarios that PT X made:

1. If the receivable is paid fully according to the schedule, with IDR 44,775,110,265 provision.
2. If the receivable is extended to additional 6 quarters due to failure of payment in the first 6 quarters, with IDR 64,011,992,100 provision.
3. If the receivable is paid according to the schedule but not paid in full (PT SS defaulted), with IDR 77,786,375,324 provision.

From the explanation given above, PT X chose the first scenario and therefore the recorded amount for PSAK 71 (IFRS 9) implementation is IDR 44,475,110,265 or in equivalent to USD 3,199,418. This provision amount will be adjusted at the end of the reporting period.

The summary of PT X's provision of PT SS's individual assessment in USD is as below:

#### PSAK 71 (IFRS 9) Receivable Assessment

Summary of PT X Assessment for PT SS Provision	
IDR	3,199,418
USD	3,832,805
	7,033,233
	USD

#### 5. Other Receivables (non trade)

The treatment to calculate PT X's non trade receivable is similar to calculating the trade AR. Firstly, 24 months historical timeline of non trade AR Aging bucket will be chosen to calculate the roll rate and the average of uncollected receivables will be found. Secondly, the macroeconomic factors that are taken into consideration are IDR to USD currency exchange, inflation rate of Indonesia, Bank Indonesia's interest rate, coal price, oil lifting and crude oil price for the past 2 years and 1 projected year. The macroeconomic factors will be used in calculating the provision rate as well.

From the calculation conducted out of the total USD 2,179,720 population, the provision calculated based on PSAK 55 (IAS 39) is USD 75,399 whereas the provision calculated based on PSAK 71 (IFRS 9) is USD 75,505. The provision takes 3.5% part of the Non Trade AR population.

The summary of PT X's provision of PT SS's individual assessment in IDR is as below:

#### PSAK 71 (IFRS 9) Receivable Assessment

Summary of PT X Non Trade AR Provision	
PSAK 55	75.399
PSAK 71	75.505
	-106 US D

#### 6. Investment in Stock

The investment in Stock of has the amount of USD 5,006 and takes 0,0004% part of Total Asset. Therefore it is considered as immaterial and provision for the investment does not need to be calculated.

In summary, the amount of provision calculated from each financial instruments accounts of PT X is presented below:

Table 4.6 Provision for PT X's Financial Instruments

<b>Financial Instruments</b>	<b>Provision</b>
Cash & Cash Equivalent	445
Marketable Securities	870
Accounts Receivable	18,603,062
Other Receivables	75,505
Investment in Stock	0
Other Non-current Asset	0
<b>Total</b>	<b>18,679,882</b>

- Identifying and calculating the impact of PSAK 71 (IFRS 9) towards Receivable Provisions

To see the accounts impacted by the change in regulation, firstly the adjusting journal should be made based on the additional provision written on the table in order to record the unrecorded provision. The journal will be separated as below:

#### 1. Cash & Cash Equivalents

From the outstanding balance amounting USD 126,806,093, the provision calculated for time deposits is USD 445. Therefore, the adjusting entries that should be made for the cash & cash equivalent accounts are:

Loan Expense Other	445
Allowance for Doubtful Account - TD	44
	5

PT X will debit Loan Expense Other account for the amount USD 445 and credit Allowance for Doubtful Account for the same amount. The Loan Expense Other account will then be accumulated in the Income (Expense) on7 Operation in the Profit & Loss, whereas Allowance for Doubtful Account is a contra asset account which will deduct the Accounts Receivable.

## 2. Marketable Securities

From the outstanding balance amounting USD 2,841,838, the provision calculated for bonds is USD 870. Therefore, the adjusting entries that should be made for the Marketable Securities accounts are:

Gain (Loss) On Sale	870
Available-for-Sale Financial Asset	
Allowance of Doubtful Account - MS	870

PT X will debit Gain (Loss) On Sale Available-for-Sale Financial Asset account for the amount USD 870 and credit Allowance for Doubtful Account for the same amount. Gain (Loss) On Sale Available-for-Sale Financial Asset account will then be accumulated in the Other Comprehensive Income, whereas Allowance for Doubtful Account is a contra asset account which will deduct the Marketable Securities valuation.

## 3. Accounts Receivable: Trade Receivable (third & related party)

From the outstanding balance amounting USD 221,180,450, the provision calculated for trade receivable (third & related party) is USD 18,603,062 which takes 8.4% part of the

outstanding amount. Therefore, the adjusting entries that should be made for the Accounts Receivable account are:

Overhead Bad Debt Expense	18,603,062
Allowance of Doubtful Account - AR	18,603,062

PT X will debit Overhead Bad Debt Expense account for the amount USD 18,603,062 and credit Allowance for Doubtful Account for the same amount. Overhead Bad Debt Expense account will then be accumulated in the Income (Expense) on Operation in the Profit & Loss, whereas Allowance for Doubtful Account is a contra asset account which will deduct the Accounts Receivable.

#### 4. Accounts Receivable: Non-trade Receivable

From the outstanding balance amounting USD 2,179,720, the provision calculated for non-trade receivable is USD 75,505, which takes 3.5% part of the outstanding amount. Therefore, the adjusting entries that should be made for the Accounts Receivable account are:

Overhead Bad Debt Expense	75,505
Allowance of Doubtful Account - Other Receivable	75,505

PT X will debit Overhead Bad Debt Expense account for the amount USD 75,505 and credit Allowance for Doubtful Account for the same amount. Overhead Bad Debt Expense account will then be accumulated in the Income (Expense) on Operation in the Profit & Loss, whereas Allowance for Doubtful Account is a contra asset account which will deduct the Other Receivable.

5. Investment in Stock

Provision is not made for this account due to an immaterial amount outstanding (only 0,0004% of Total Asset) and the management has decided not to make any provision.

In summary, the amount of provision calculated from each financial instruments accounts of PT X is presented below:

Table 4.1 Summary of Financial Impacts towards PT X Financial Statements

Account	Before PSAK 71	After PSAK 71
<b>Total Assets</b>	11,315,035,788	11,296,355,906
<b>Total Liabilities</b>	5,569,972,226	5,569,972,226
<b>Total Equity</b>	5,745,063,562	5,726,383,680
<b>EBIT</b>	882,963,759	864,284,747
<b>Net Income</b>	661,637,575	642,958,563
<b>Other Comprehensive Income</b>	605,192,846	605,191,976
<b>Operating Cash Flow</b>	1,417,275,203.5	1,398,596,637
<b>Investing Cash Flow</b>	64,620,238	64,620,238
<b>Financing Cash Flow</b>	(772,091,112)	(772,091,112)

B. Hypothesis Test

There are some changes in PT X's financial statements (Income Statement, Statement of Financial Position, and Statement of Cash Flow) caused by adjustments made in accordance to PSAK 71 (IFRS 9). These changes will then be compared with the financial statements data that used PSAK 55 (IAS 39) by using the t-test method in order to determine the significance of the impact.

a. Hypothesis 1

H1: The implementation of PSAK 71 (IFRS 9) will make significant changes towards the Statement of Financial Position of PT X in comparison to the company's current method

The result of the t-test conducted shows that the significant difference is at 0.235 and for that reason, from the statistical test it can be concluded that the difference shown in the test is not significant. To prove the t-test result, a calculation of the effect of implementing PSAK 71 (IFRS 9) towards the Statement of Financial Position will be shown below:

$$\begin{aligned} \text{Total Asset} &= \frac{(11,296,355,906 - 11,315,035,788)}{11,315,035,788} \\ (\%) & \end{aligned}$$

$$= -0.17\%$$

After conducting further horizontal analysis, it is found that the implementation of PSAK 71 (IFRS 9) resulted in 0.17% decrease towards PT X's Total Asset compared to the previous standard PSAK 55 (IAS 39). The reduction in total asset comes from a decrease in Accounts Receivable with the amount of USD 18,678,567, decrease in Marketable Securities with the amount of USD 870 and a decrease in Cash & Cash Equivalent with the amount of USD 445 as the allowances for these accounts raise. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) is insignificant towards PT X's total asset.

$$\begin{aligned} \text{Total Liabilities} &= \frac{(5,569,972,226 - 5,569,972,226)}{5,569,972,226} \times 100\% \\ (\%) & \end{aligned}$$

$$= 0.00\%$$

After conducting further horizontal analysis, there is no change in PT X's total liabilities. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) has no effect towards PT X's total liabilities.

$$\begin{aligned} \text{Total Equity} &= \frac{(5,726,383,680 - 5,745,063,562)}{5,745,063,562} \times 100\% \\ (\%) & \end{aligned}$$

$$= -0.33\%$$

After conducting further horizontal analysis, it is found that the implementation of PSAK 71 (IFRS 9) resulted in 0,33% decrease towards PT X's total equity compared to the previous standard PSAK 55 (IAS 39). The reduction in total equity comes from a decrease in retained earnings as the bad debt expenses incurred from the allowances of the financial instruments amounting USD 18,679,012 and an increase in other comprehensive loss amounting USD 870 as the measurement amount of marketable securities available-for-sale decreases. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) is insignificant towards PT X's total equity.

b. Hypothesis 2

H2: The implementation of PSAK 71 (IFRS 9) will make significant changes towards the Income Statement of PT X in comparison to the company's current method.

The result of the t-test conducted shows that the significant difference is at 0.184 and for that reason, from the statistical test it can be concluded that the difference shown in the test is not significant.

$$\begin{aligned} \text{EBIT} &= \frac{(864,284,747 - 882,963,759)}{882,963,759} \times 100\% \\ (\%) & \\ &= -2.12\% \end{aligned}$$

After conducting further horizontal analysis, it is found that the implementation of PSAK 71 (IFRS 9) resulted in 2.12% decrease towards PT X's Earning Before Income Tax (EBIT) compared to the previous standard PSAK 55 (IAS 39). The reduction in EBIT comes from an increase in Other Operating Expenses as the bad debt expenses with the amount of USD 18,678,567 and other loan expenses with the amount of USD 445 occurred. The bad debt expense arises from the allowances of PT X's receivables, whereas the other loan expenses arised from expected credit losses of PT X's time deposits. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) is insignificant towards PT X's EBIT.

$$\begin{aligned} \text{Net Income (\%)} &= \frac{(642,958,563 - 661,637,575)}{661,637,575} \times 100\% \\ &= -2,82\% \end{aligned}$$

After conducting further horizontal analysis, it is found that the implementation of PSAK 71 (IFRS 9) resulted in 2.82% decrease towards PT X's Net Income compared to the previous standard PSAK 55 (IAS 39). Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) is insignificant towards PT X's Net Income.

$$\begin{aligned} \text{OCI (\%)} &= \frac{(605,191,976 - 605,192,846)}{605,192,846} \times 100\% \\ &= -0,00022\% \end{aligned}$$

After conducting further horizontal analysis, it is found that the implementation of PSAK 71 (IFRS 9) resulted in 0.00022% decrease towards PT X's Other Comprehensive Income (OCI) compared to the previous standard PSAK 55 (IAS 39). Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) is insignificant towards PT X's OCI.

### c. Hypothesis 3

H3: The implementation of PSAK 71 (IFRS 9) will make significant changes towards the Statement of Cash Flow of PT X in comparison to the company's current method.

The result of the t-test conducted shows that the significant difference is at 0.396 and for that reason, from the statistical test it can be concluded that the difference shown in the test is not significant.

$$\text{OCF} = \frac{(1,398,596,637 - 1,417,275,203)}{\quad} \times 100\%$$

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(%) 1,417,275,203

= -1,32%

After conducting further horizontal analysis, it is found that the implementation of PSAK 71 (IFRS 9) resulted in 1.32% decrease towards PT X's cash generated from operating cash flow compared to the previous standard PSAK 55 (IAS 39). The reduction in operating cash flow comes from a decrease in the receivables with the amount of USD 18,678,567. This reduction in receivables is due to an increase in its allowances for the receivables, arising from the PSAK 71 (IFRS 9) expected credit loss method. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) is insignificant towards PT X's operating cash flow.

IC	( 64,620,238 - 64,620,238 )	x
F	64,620,238	100%
(		
%		
)		
	0,00%	

After conducting further horizontal analysis, there is no change in PT X's cash flow from investing activities. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) has no effect towards PT X's cash flow from investing activities.

F	(-772,091,112 -	x
C	(-772,091,112))	100
F	-772,091,112	%
(		
%		
)		
	0,00%	

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After conducting further horizontal analysis, there is no change in PT X's cash flow from financing activities. Therefore, it can be concluded that the implementation of PSAK 71 (IFRS 9) has no effect towards PT X's cash flow from financing activities.

## V. CONCLUSION & RECOMMENDATION

### A. Conclusion

Indonesian Accounting Standard board issued PSAK 71 as the adaptation of IASB's IFRS 9 to replace the old accounting standard for Financial Instruments. The inaccurate provision calculation and minimum anticipation of loan losses at the end are the reason why PSAK 55 (IAS 39) is replaced with PSAK 71 (IFRS 9) that introduced the forward-looking method in recording allowances. The change in regulation has affected all companies that have financial instruments, including the financial assets or financial liabilities within.

For the first hypothesis, the implementation of PSAK 71 (IFRS 9) did not make a significant difference towards the Statement of Financial Position of PT X compared to the previous audited Statement of Financial Position using PSAK 55 (IAS 39). The amount of the outstanding financial instruments balance only takes 3,26% of total assets in total. Considering that, the implementation of PSAK 71 (IFRS 9) resulted in change for USD 18,679,882 only accounted for 0,17% of the total asset amount, which is USD 11,315,035,788 under PSAK 55 (IAS 39). In summary, the amount of difference in Statement of Financial Position after implementation of PSAK 71 (IFRS 9) is -0,17% for total assets, 0% for total liabilities and -0,33% for total equity.

For the second hypothesis, the implementation of PSAK 71 (IFRS 9) did not make a significant difference towards the Income Statement of PT X compared to the previous audited Statement of Financial Position using PSAK 55 (IAS 39). The implementation of PSAK 71 (IFRS 9) resulted in a change for USD 18,679,882 decrease in EBIT and Net Income, and USD 870 decrease in OCI compared to the amount under PSAK 55 (IAS 39). In summary, the amount of difference in Income Statement after implementation of PSAK 71 (IFRS 9) is -2,12% for EBIT, -2,82% for Net Income and -1,32% for OCI.

For the third hypothesis, the implementation of PSAK 71 (IFRS 9) did not make a significant difference towards the Statement of Cash Flow of PT X compared to the previous audited Statement of Financial Position using PSAK 55 (IAS 39). The implementation of PSAK

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71 (IFRS 9) resulted in a change for USD 18,678,567 decrease in cash generated from operating cash flow compared to the amount under PSAK 55 (IAS 39). In summary, the amount of difference in the Statement of Cash Flow after implementation of PSAK 71 (IFRS 9) is -1,32% in operating cash flow, there is no change in cash flow from investing and financing activities.

#### B. Recommendation

Based on the findings above, there are several notable recommendations, which are:

1. PT X must start to implement PSAK 71 (IFRS 9) this year. As it may be known, there are many complications and challenges arises from the standard transition and therefore early adaptation will allow PT X to have more time to gain comprehension about the standard and to complete the necessary data for the implementation. The insignificant change will benefit PT X for the compliance reason. PT X is still required to record adjustment entries despite of the immaterial changes yet it will not harm PT X's Financial Statements too much. Financial reports must be presented fairly and in accordance to the national financial reporting framework and in this case, PT X must comply to the Indonesian Accounting Standard (SAK). Additionally, PT X is also required to disclose the change in accounting policies topic on the Notes to Financial Statement and the impacts of the change affecting its financial statements.

2. The key point of implementation of PSAK 71 (IFRS 9) is the forward-looking impairment method. The increasing uncertainties arise in the current economic era also increases the likelihood of risk exposure in the industries, including in the heavy equipment industry. This is considered as systematic risk which unfortunately cannot be avoided. Moreover, these macroeconomic considerations must be taken into the PSAK 71 (IFRS 9) calculations and estimations. For this reason, PT X should draw their focus to maintain the Accounts Receivables data as the implementation of PSAK 71 (IFRS 9) will decrease their total asset due to the rise of the allowances for financial instruments. Not only that, the allowances made also have the effects to PT X's income statement as it also increases the Other Operating Loss through the Bad Debt Expense. If the allowances are not maintained properly, the income of PT X will most likely to keep decreasing. Conclusively, though the change effect is not material at the moment, it may keep reducing PT X's income and Assets.

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3. For the future researchers, it is recommended to conduct research about implementation of PSAK 71 (IFRS 9) in similar and other industries apart from the banking and heavy equipment industries. The result can be compared to see whether the change in accounting standards bring similar impact or not.

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