

**STATEMENT OF  
FINANCIAL ACCOUNTING STANDARD**

**SFAS No.**

**4**

**INDONESIAN INSTITUTE OF ACCOUNTANTS**

**CONSOLIDATED FINANCIAL STATEMENTS**

Statement of Financial Accounting Standards (SFAS) No. 4, Consolidated Financial Statements, was adopted by a meeting of the Indonesian Accounting Principles Committee on August 24, 1994 and was ratified by the Executive Committee of the Association of Indonesian Accountants on September 7, 1994.

Compliance with the policies contained in this Statement is not obligatory in the case of immaterial items.

Jakarta, September 7, 1994

Executive Committee  
Association of Indonesian Accountants

Indonesian Accounting Principles Committee

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## **INTRODUCTION**

### **Objective**

This Statement deals with the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent company. Consolidated financial statements have been developed to meet the requirement for information concerning the financial position, results of operations and changes in the financial position of a group of enterprises.

### **Scope**

**01** This Statement does not deal with:

- (a) the method of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination;
- (b) accounting for investments in associates; and
- (c) accounting for investments in joint ventures.

**02** This Statement is applicable for all parent companies as long as there is no specific guidance in a separate Statement concerning the preparation of consolidated financial statements.

### **Definitions**

**03** The terms used in this Statement are defined as follows:

*Control* is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

*Subsidiary* is an enterprise that is controlled by another enterprise (known as the parent company).

*Parent company* is an enterprise that has one or more subsidiaries.

*Group company* is a parent company and all its subsidiaries.

*Consolidated financial statements* are the financial statements of a group company presented as one economic entity.

*Minority interest* is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through subsidiaries, by the parent company.

## EXPLANATION

**04** Users of financial statements are usually concerned with and need to be informed of the financial position, results of operations and cash flows of the group company. This need is solved by consolidated financial statements, which present financial information about the group company as a single economic entity even though each company in the group is a separate legal entity.

### Criteria for Preparation of Consolidated Financial Statements

**05** Consolidated financial statements include all enterprises that are controlled by the parent company, other than those subsidiaries excluded for the reasons set out in paragraph 6. Control is presumed to exist when the parent company owns, directly, or indirectly through subsidiaries, more than 50 percent of the voting rights of an enterprise. Even when a company owns 50 percent or less of the voting rights of an enterprise, control exists when one of the following conditions is met:

- (a) having more than 50 percent of the voting rights by virtue of an agreement with other investors;
- (b) having the right to govern the financial and operating policies of the enterprise under the articles of association or an agreement;
- (c) ability to appoint or remove the majority of the members of the board of directors and commissioners; and
- (d) ability to control the majority of votes at a meeting of the board of directors or commissioners.

**06** A subsidiary is excluded from consolidation when:

- (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or,
- (b) it operates under long term restrictions which significantly impair its ability to transfer funds to the parent company.

Such subsidiaries are accounted for by the parent company as other investments in accordance with SFAS No.13, Accounting for Investments.

**07** A subsidiary having dissimilar business activities from those of the other enterprises within the group company is still to be consolidated. In the notes to the consolidated financial statements the different business activities should be disclosed.

## Consolidation Procedures

**08** In preparing consolidated financial statements, the financial statements of the parent company and its subsidiaries are combined on a line by line basis by adding together like terms of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group company as a single economic entity, the following steps are then taken:

- (a) the carrying amount of the parent company's investment in each subsidiary and the parent company's portion of equity of each subsidiary are eliminated;
- (b) inter-company balances and transactions including sales, expenses and dividends are eliminated in full;
- (c) unrealized profits and losses resulting from inter-company transactions are eliminated;
- (d) minority interest in the net income is presented as a deduction from the consolidated net income to arrive at the net income attributable to the shareholders of the parent company; and
- (e) minority interests in the net assets are presented in the consolidated balance sheet separately between liabilities and equity. Minority interests in the net assets consist of:
  - (i) the amount at the date of the original combination calculated in accordance with SFAS No. 22, Accounting for Business Combinations; and
  - (ii) the minority's share of movement in equity since the date of the combination.

**09** The financial statements of the parent company and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as the parent company. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference is no greater than three months. The consistency principle dictates that the length of reporting periods and any difference in the reporting dates should be the same from period to period.

**10** When financial statements with different reporting dates are consolidated, adjustments are made for the effects of any significant events for inter-company transactions that occur between these dates and the date of the consolidated financial statements.

**11** Consolidated financial statements are prepared using a uniform accounting policy for similar transactions and events in similar circumstances. If a member of the group

company uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements. If it is not practicable for such adjustments to be calculated, that fact is disclosed in the notes to the consolidated financial statements, together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

**12** If an acquisition is conducted within the current year, the results of operations of a subsidiary are included in the consolidated financial statements as from the date of acquisition, which is the date on which control of the acquired subsidiary is effectively transferred to the buyer. The results of either partly or entirely disposed operations of a subsidiary are included in the consolidated income statement until the date of disposal which is the date on which the parent company ceases to have control of the subsidiary. The difference between the proceeds from the disposal of the subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognized in the consolidated income statements as the gain or loss on the disposal of the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and the disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

**13** As from the date that it ceases to fall within the definition of a subsidiary and does not become an associate as defined in SFAS No.15, Accounting for Investments in Associates, an investment in an enterprise is accounted for in accordance with SFAS No. 13, Accounting for Investments.

**14** The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess and any further losses applicable to the minority, are charged against the majority interest except to the extent that minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profit, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

**15** If a subsidiary has outstanding cumulative preferred shares which are held outside the group company, the parent company computes its share of profits or losses after adjusting for the subsidiary's preferred dividends, whether or not dividends have been declared.

### **Reporting Parent Company's Separate Financial Statements**

**16** If the parent has met the requirements for consolidation, consolidated financial statements should be prepared. A parent that has met the requirements should not present its financial statements on a stand alone basis because there is only one general purpose financial statement which is a consolidated financial statement. However, stand alone financial statements can be presented as additional information. In a parent company's

stand alone financial statements, investments in subsidiaries should be recorded using the equity method.

**Disclosure**

**17** In order that the users of the consolidated financial statements may understand the relationship between members of the group company, the following disclosures are made:

- (a) a listing of significant subsidiaries, including name, country of incorporation or residency, proportion of ownership interest and, if different, proportion of voting interest;
- (b) the reasons for not consolidating a subsidiary; and
- (c) the nature of the relationship between the parent company and a subsidiary where the parent company does not own, directly or indirectly through subsidiaries, more than one half of the voting interest.

**18** In order that the users of the separate financial statements of the parent are aware of the method used to account for subsidiaries, a description of the method should be disclosed.

**STATEMENT OF FINANCIAL ACCOUNTING STANDARD NUMBER 4****CONSOLIDATED FINANCIAL STATEMENTS**

**Statement of Financial Accounting Standard No. 4 consists of paragraphs 19-29. This Statement should be read in the context of paragraphs 1-18.**

**Scope of Consolidated Financial Statements**

**19** When a parent company owns directly, or indirectly through a subsidiary, more than 50 percent of the voting rights of an enterprise it should present consolidated financial statements. An enterprise that owns 50 percent or less of the voting rights should be required to prepare consolidated financial statements if it is proved that control does exist. Consolidated financial statements should consolidate all subsidiaries, foreign and domestic.

**20** A subsidiary should be excluded from consolidation when:

- (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
- (b) it operates under long-term restrictions so that it cannot transfer funds to the parent company.

Such subsidiaries should be accounted for as if they are investments in accordance with SFAS No.13, Accounting for Investments.

**Consolidation Procedures**

**21** Inter-group balances and inter-group transactions should be eliminated in full.

**22** Unrealized profits and losses resulting from inter-company transactions between the parent company and its subsidiaries should also be eliminated.

**23** For consolidated purposes it is preferable that the parent company and its subsidiaries should have common financial reporting dates. If a difference exists, it may be used for consolidation providing that:

- (a) the difference is not more than three months; and
- (b) significant events or transactions that occur between these dates and the date of the group's financial statements are disclosed.

When financial statements with different reporting dates (more than three months) are consolidated, adjustments are made for the effects of any significant events or inter-

company transactions that occur between these dates and the date of the group's financial statements.

**24** Consolidated financial statements should be prepared using uniform accounting policies for similar transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which different accounting policies have been applied.

**25** Minority interests should be presented separately in the consolidated balance sheet between liabilities and the parent shareholders' equity. Minority interests in the income of the group should also be separately presented in the profit and loss statement.

**26** An investment in a subsidiary should be accounted for in accordance with SFAS No.13, Accounting for Investments, from the date that it ceases to fall within the definitions of a subsidiary and does not become an associate as defined in SFAS No.15, Accounting for Investments in Associates.

### **Reporting Parent Company's Separate Financial Statements**

**27** A parent company that fulfills the requirements for consolidation cannot present unconsolidated financial statements as general purpose financial statements. A parent company's stand alone financial statements can only be presented as additional information in consolidated financial statements. In these separate financial statements, investments in subsidiaries should be recorded using the equity method.

### **Disclosure**

**28** The following disclosures should be made in consolidated financial statements:

- (a) a listing of significant subsidiaries including name, country of incorporation or residency, business activity, proportion of ownership interest and, if different, proportion of voting interest;
- (b) the reasons for not consolidating a subsidiary as described in paragraph 20;
- (c) the nature of the relationship between the parent company and a subsidiary in which the parent company's control over its voting rights, directly or indirectly, are 50 percent or less; and
- (d) the effect from the acquisition and the sale or disposal of the investment in the subsidiary to the consolidated financial position and operating results for the current and prior year.

### **Effective Date**

**29** This Statement becomes effective for financial statements covering periods beginning on or after January 1, 1995. Earlier application is encouraged.