

**STATEMENT OF
FINANCIAL ACCOUNTING STANDARD**

SFAS No.

7

INDONESIAN INSTITUTE OF ACCOUNTANTS

RELATED PARTY DISCLOSURES

Statement of Financial Accounting Standard (SFAS) No.7, Related Party Disclosures, 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 disclosure of related parties and transactions between a reporting enterprise and its related parties.

Scope

01 The requirements of this Statement apply to the financial statements of each reporting enterprise.

02 No disclosure of transactions is required in:

- (a) consolidated financial statements in respect to inter-group transactions;
- (b) a parent company's financial statements when they are made available or published with consolidated financial statements; and
- (c) financial statements of a subsidiary that is wholly owned by its parent company and where consolidated financial statements are already provided, and in financial statements of state-controlled enterprises of transactions with other state-controlled enterprises.

Definitions

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

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged.

Control is direct ownership of more than one half of the voting rights of an enterprise, or a substantial interest in the voting rights and the power to direct the financial and operating policies of the management of the enterprise by statute or agreement.

Significant influence (for the purpose of the Statement) is participation in the financial and operating policy decisions of an enterprise, but not having control of those policies. Significant influence may be exercised in several ways, usually by representation on the board of commissioners or participation in the policy making process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or

agreement. With share ownership, significant influence is presumed in accordance with the definition contained in SFAS No. 4, Consolidated Financial Statements.

EXPLANATION

04 This Statement deals only with those related party relationships described below:

- (a) enterprises that, through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associated companies;
- (c) individuals owning, directly or indirectly, an interest in the voting rights of the reporting enterprise that gives them significant influence over the enterprise, and close members of the family (close members of the family of an individual are those that may be expected to influence, or be influenced by, that person in their dealings with the enterprise);
- (d) key management personnel, that is those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including commissioners, directors and managers of companies and close members of the families of such individuals; or
- (e) enterprises in which a substantial interest in the voting rights is owned, directly or indirectly, by a person described in “c” or “d”, or over which such a person is able to exercise significant influence. This includes enterprises owned by commissioners, directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

05 The following are deemed not to be related parties:

- (a) in the course of their normal dealings with the reporting enterprise:
 - (i) providers of finance;
 - (ii) trade unions;
 - (iii) public utilities; and

- (iv) government departments and agencies; (even though the above parties may limit the freedom of an enterprise's actions or participate in its decision making process); and
- (b) a single customer, supplier, franchiser, distributor or general agent with whom an enterprise transacts a significant volume of business, merely by virtue of the resulting economic dependence.

The Related Party Issue

06 Related party relationships are a normal feature of commerce and business. For example, enterprises frequently carry on separate parts of their activities through subsidiary or affiliated enterprises, acquire interest in other enterprises for investment purposes or for trading reasons that is of sufficient proportion to control or exercise significant influence on the financial and operating decisions of its investee.

07 A related party relationship may have an effect on the financial position and operating results of the reporting enterprise. Related parties may enter into transactions in which unrelated parties would not enter into. Transactions between related parties may also be carried on using different prices than those used for the same transactions between unrelated parties.

08 The financial position and operating results of an enterprise may be affected by a related party relationship even if no related transactions occur. A related party relationship may affect the transactions of the reporting enterprise with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent company of a fellow subsidiary engaged in the same business as the former trading partner. Alternatively, an action may be refrained from because of significant influence from another party. For example, a subsidiary may be instructed by its parent company not to engage in research and development.

09 Because there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects are not required by this Statement.

10 Accounting recognition of a transfer of resources is normally based on the price agreed between the parties. Between unrelated parties the price is an arm's length price. Related parties may have a degree of flexibility in the price-determination process that is not present in transactions between unrelated parties.

11 Various methods are used in price determination between related parties.

12 One method used for price determination between related parties is the comparable free-market price method. If the goods or services are supplied in a related party transaction and the conditions are similar to those in normal trading transaction, this method is often used. This method is also often used for determining the cost of finance.

13 If goods are transferred between related parties before they are sold to an independent party, the resale price method is often used. This method reduces the resale price by a reasonable margin. This method is also used for transfers of other resources, such as rights and services.

14 Another method is the cost-plus method, which adds on appropriate mark-up to the supplier's cost. Difficulties may be experienced in determining both the elements of cost attributable and the mark-up. Among the yardsticks that may assist in determining transfer prices are comparable returns in similar industries on sales volume or capital employed.

15 Sometimes the prices of related party transactions are not determined under one of the methods described in paragraphs 12-14 above. Sometimes no prices are even charged, for example: free management services and interest-free loans.

16 Some transactions occur only because the special relationship exists. For example, a company that usually sold a large proportion of its production at cost to its parent company might have a difficulty in finding another customer if the parent company had not purchased the products.

Disclosure

17 The following are examples of transaction situations between related parties that may need to be disclosed by a reporting enterprise:

- (a) purchase or sale of goods;
- (b) purchase or sale of property and other assets;
- (c) rendering or receiving of services;
- (d) transfer of research and development;
- (e) financing (including providing loan and equity contributions in cash or in kind);
- (f) guarantees and collateral; and
- (g) management contracts.

18 In order for a reader of financial statements to form a view about the effects of related party relationship, a reporting enterprise must disclose the related party relationship if control exists, in respect to related party transactions.

19 If there have been transactions between related parties, it is appropriate to disclose the nature and elements of the transactions which are necessary to understand the financial statement. These elements would normally include:

- (a) an indication of the volume of the transactions, both the amount and the proportion;
- (b) the amount or proportion of outstanding items; and
- (c) pricing policies.

20 Similar items are usually aggregated unless a separate disclosure is necessary in order to understand the effects of related party transactions on the financial statements of the reporting enterprise.

21 Disclosure of transactions between members of a group is unnecessary in consolidated financial statements because consolidated financial statements present information about the parent and the subsidiary as a single reporting enterprise.

STATEMENT OF FINANCIAL ACCOUNTING STANDARD NUMBER 7

RELATED PARTY DISCLOSURES

Statement of Financial Accounting Standard No. 7 consists of paragraphs 22- 25. This Statement should be read in the context of paragraphs 1-21.

22 This Statement applies only to those related party relationships described in paragraph 4 with exceptions made as described in paragraph 5.

23 If there have been transactions between related parties, the reporting enterprise must disclose the nature of the related party relationship and the types and elements of the transactions necessary for an understanding of the financial statements.

24 Items of a similar nature may be disclosed in aggregate form except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

Effective Date

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