

CORPORATE ADAPTATION TO PSAK 69: ANALYZING THE TRANSITION TO NEW ACCOUNTING STANDARDS IN AGRICULTURE

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Abstract: The objective of this research is to analyze the readiness of Accounting Standards for Agriculture (PSAK 69) that should be implemented for 2018 financial statements in Agro-Industry Company in Jember and Probolinggo, Indonesia. Qualitative Method has been employed in this research with interview and observation in some agro-industry companies. The objects of this research are PT Mangli Djaya Raya, PTPN X (Kertosari Garden), and Perum Perhutani KPH Jember and Probolinggo. The results indicate that those companies are not entirely implementing PSAK 69 and generally they employ historical cost to recognize and measure their biological assets. PT Mangli Djaya Raya, which has tobacco plants, reports its financial statements once a year, while the lifetime of tobacco plants last less than a period of financial statements. Therefore, the tobacco plants doesn't appear in their balance sheet as biological assets. The results in PTPN X, which has tobacco, cacao, and sugarcane, imply that the biological assets recognition based on historical cost rather than fair value. However, for cacao and sugarcane have already been recognized as biological assets in its balance sheets. Similar results for Perum Perhutani KPH Jember and Probolinggo, which have teak, rosewood, and mahogany as their commodity, do not recognize biological assets based on fair value. Generally, the obstacle of PSAK 69 implementation is how to measure biological assets using fair value due to lack of active market. This may affect reliability and relevancy of company's financial statements information regarding biological assets.

Keywords: PSAK 69, agriculture, biological assets, historical cost, fair value

1. Introduction

Biological assets are assets that have growth transformation. The transformation consists of the growing, degenerating, producing, and procreating processes that result in the qualitative and quantitative transformation in the life of the assets in the form of plants or animals. These assets can produce new assets materialized in „agriculture produce“. The biological transformation in the biological assets would mean that there needs to be a measurement that can show the value of the assets reasonably, in accordance with the deal and the contribution it gives in making economical flows of profit for corporations. The PSAK 69 is fully adopted from the IAS – 41 Agriculture (International Accounting Standard) which contains the accounting's handling of the agriculture sector that involves disclosure, presentation, measurement, and the reporting of biological assets. With the progress and growing numbers of agriculture enterprises, a new accounting standard, the IAS-41, was issued. The

International Accounting Standard (IAS-41Agriculture) is a standard that manages the accounting's handling of the biological assets, and it is considerably applied in developed countries" agriculture

entities. This is in contrast with developing countries, whose economy is mainly sustained by the agriculture sector, so in some countries in particular like India, Indonesia, and Malaysia, they have yet to adopt and apply the standard in their agriculture entities because the IAS-41 is deemed quite irrelevant, ineffective, and incomplete to be applied (Pratiwi, 2017). Agriculture is defined as the management of the transformation in animals and plants to produce products that are ready to use or those that still require further processes. Bahri (2015) states that in IAS-41 there are 3 criteria for agricultural activities, i.e.:

1. The plants and animals must be living or under development
2. The growth of the plants and animals must be managed by a series of proper activities
3. There has to be a basis in measuring the growth of the plants and animals

One of the crucial issues or obstacles that may be faced in the application of *PSAK 69* is that it requires a large number of corporations or business entities to change their measurement and accounting reports which are mostly based on the historical cost for measuring and fair value for reporting. The application of fair value will cause an unrealistic fluctuation on the net profit of forestry companies. Although there is a growing trend for the application of accounting standardization based on fair value, the reformation has generated controversies among different circles. Based on that background, this research aims to analyze the readiness of Agricultural Accounting Standard (*PSAK 69*) implementation in agro-industry corporations in Jember and Probolinggo.

2. Literature Review

2.1 Biological Assets

2.2 The *PSAK 69* defines biological assets as “a living animal or plant”. According to International Accounting Standard No. 41, biological assets are defined as living plants and animals that are controlled and managed by corporations as a result of a past event. The control and management can be done through ownership or any other legal agreements. The biological assets will be presented as current assets if their biological transformation benefit or period is less or up to 1 (one) year and they will be presented as non-current assets if their biological transformation benefit or period is more than 1 (one) year.

2.3 Biological Assets and Method of Measurement

2.4 The *PSAK 69* also arranges the measurement for biological assets. These assets are measured by fair value. The calculation of fair value can adopt the current price by using „mark-to-market“ in active markets. Active markets are markets which items are homogeneous, so the seller and buyer can meet anytime in normal conditions and for affordable prices. The selling cost consists of commissions for the middlemen or distributors appointed by the authorities, and also the tax or transferable obligations. The transportation cost and the cost to put the items into the market are excluded from the selling cost. Moreover, the similar asset or sector benchmark can also be used to measure biological assets, which is called as „market-determined prices“. If the market price is not available, the standard advises to use „discounted-cash flows model“. Lastly, if all of the above is not available and reliably measured, then the biological assets must be measured by their acquisition cost minus the accumulated depreciation and devaluation. Watts (2003) states that measurement using fair value is the subject of manipulation therefore it is a poor unit of measurement for the valuation and the performance compared to the use of historical cost. He also states that every business that prohibited accounting conservatism would definitely fail and accounting would not be able to compete with the market in assessing a corporation. Penttinen et al. (2004) also stated that the application of fair value would cause an unrealistic fluctuation on the net profits of forestry companies. While Herbohn and Herbohn(2006) also Dowling and Godfrey (2001) emphasized on the increasing volatility, manipulation, and subjectivity from the reported revenue based on fair value.

2.5 The Accounting Treatment of Biological Assets

Martani, et al (2012:290) stated that fixed assets are still presented on the non-current assets part in the report of financial position. The biological assets will be presented as current assets if their biological transformation benefit or period is less or up to 1 (one) year and they will be presented as non-current assets if their biological transformation benefit or period is more than 1 (one) year. The entities of *PSAK 69* will recognize biological assets or agricultural products when, and only when:

- 1 The entities take control of the biological assets as a result of a past event;
- 2 There is a huge possibility of future flowing economic benefits that are related to biological assets to the entities; and
- 3 The fair value or the acquisition cost can be reliably measured.

The measurement of the fair value of biological assets or agricultural products can be supported by grouping the assets or products in accordance with the significant attributes; for instance, based on the age or quality. Entities will pick the suitable attributes to the ones used in the market as the basis of price fixing. The entities revealed:

- (a) The whereabouts and the carrying amount of biological assets which ownership is limited, and the carrying amount of the biological assets that are warranted for liability;
- (b) The amount of commitment for the development or acquisition of biological assets; and (c) The financial risk management strategy related to agricultural activities.

3. Research Methodology

The method used in this research is descriptive-qualitative method. A qualitative research aims to make interpretations regarding social phenomena using approaches, methods, and surveys. Research method is a means of research used for obtaining data to meet certain objectives (Narimawati, 2008: 127). The research techniques used are literary studies, observations, and interviews. These techniques are executed by gathering written data such as books, private documents, notes, previous studies, experts' opinion and theories about the discussed topic (Bahri, 2015).

The type of data used in this research is secondary, which are data obtained unintentionally by the researcher indirectly through supporting media which source comes from journals, articles, previous studies, or data from websites that are suitable with the discussed topic from both foreign and local references. The data analysis in this research starts by collecting the data related to the handling of biological assets in plantations in Jember and Probolinggo regency, analyzing the implementation with *PSAK 69* to give clear image and an in-depth explanation about the topic that is biological assets, surely by noticing the set limits. As for the objects of research, here are as follows:

1. PT MangliDjaya Raya Jember
2. PTPN X KebunKertosari Jember
3. Perhutani KPH Jember
4. Perhutani KPH Probolinggo

Based on our research problems, this study will analyze the readiness of *PSAK 69* implementation on companies, which consist of recognition, measurement, and disclosure of biological asset based on *PSAK 69* (Figure

1.1):

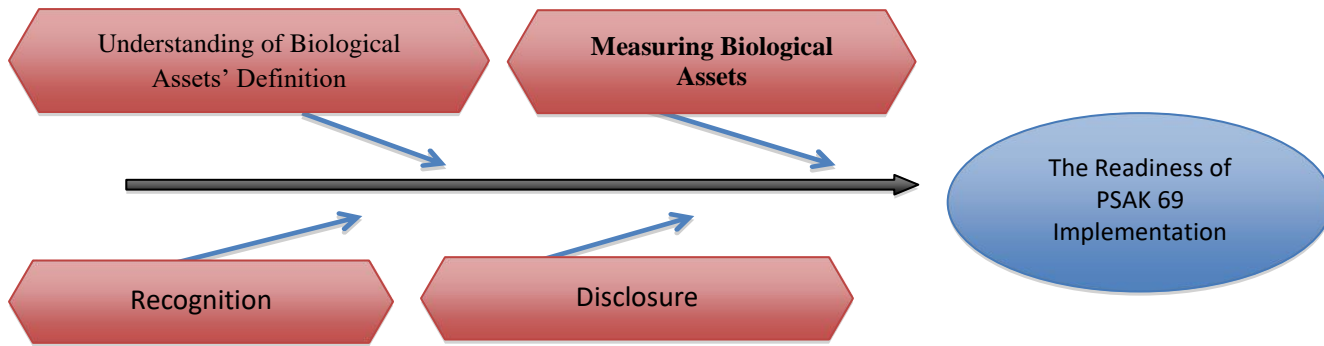


Figure 1.1: Research Framework

4. Result and Discussion

4.1 The General View of The Research Object

The object of this research is agro-industry corporations based in Jember and Probolinggo regency. The first object is *PT Mangli Djaya Raya (MDR)*. PT MDR is a tobacco company located in Jember, Indonesia.

The company focuses on cultivating of tobacco; processing, packaging, and then shipping the tobacco to some other parts of the world. Apart from PT MDR, this research also analyzes the readiness of *PSAK 69* implementation on companies whose main commodity is tobacco, like *PTPN X Kebun Kertosari Jember*. This corporate also works in the field of cultivating tobacco, processing, packaging, and then shipping the tobacco to some other parts of the world. However, the difference is that aside from tobacco, *PTPN X Kebun Kertosari Jember* also has other side plants such as sugar cane and cocoa. The next research object is *Perum Perhutani* in Jember and Probolinggo regency. *Perum Perhutani* is a State-Owned Enterprise, who is in charge of organizing the planning, arranging, undertaking, and conservating forests around their work area. As a State-Owned Enterprise, *Perum Perhutani* attempts to serve for general affairs and to nurture profits based on the principal of corporate management.

This research aims to analyze the readiness of *PSAK 69* implementation in Jember and Probolinggo regency. The analysis is done by mapping the handling of biological assets within each company, starting from how far the corporate knows about biological assets as regulated in *PSAK 69*, how to admit biological assets, how they are measured, and how they are presented.

4.2 The Understanding of Biological Assets' Definition

An agricultural corporate is a corporate that has agricultural activities. According to *PSAK 69*, an agricultural corporate is a corporate that manages biological transformation and harvest to be sold and converted into agricultural products. The management of biological assets is very important considering companies have to admit and measure the changes or transformations of plants within each development.

The understanding of biological assets is very crucial because it will affect the accounting's treatment of biological assets in the financial report. Based on the conducted interview, there are some companies that have understood the meaning of biological assets. They are *PTPN X Kebun Kertosari (Jember)*, *Perum Perhutani (KPH Jember dan KPH Probolinggo)*. However, there are some others that have not understood yet like *PT Mangli Djaya Raya (MDR)*. PT MDR does not know whether the tobacco they have is a biological asset or not, considering tobacco is a seasonal plant. The age of the tobacco is between 3-4 months, planted from June to November. The steps of cultivating tobacco start from nursery, planting, maintaining, harvesting, and processing the tobacco leaves. The tobacco cultivation is done with two systems, the partnership system and the method to plant on your own soil. In the partnership system, companies will give certified nursery transplant to farmers to plant on their soils. The temporary recording done by PTMDR while recording the purchase of tobacco nursery transplant will be included in a temporary bill. The expenditure on maintaining the tobacco will be imposed to the

farmers until harvesting season. During the harvest, the agreed price of the tobacco in the partnership will be calculated as the tobacco leaves' tonnage reduced by the maintenance expenses.

The biological assets owned by *PTPN X Kebun Kertosari Jember* are tobacco, cocoa, and sugar cane. As in *PT MDR*, tobacco and sugar cane are also seasonal plants with less than a year of planting to harvesting. Meanwhile, the cocoa plant is a long-term biological asset because it has an age span of more or less 25 years. All of the biological assets in *PT MDR*, *PTPN X Kebun Kertosari Jember* and *Perum Perhutani* are private properties. *PTPN X Kebun Kertosari Jember* has classified the biological assets in the category of plantation crops, while *Perum Perhutani* admits the assets into the classification of non-current assets. Afterwards, in the financial records of plant assets, there are 2 more classifications, i.e.: unproductive and productive plants. The productive plants are then classified into 2 groups: plants that are in development, and plants that are ready to harvest.

The result indicates that tobacco and sugar cane can be categorized as biological assets because they have the characteristic mentioned in *PSAK 69*, which says that a biological asset is marked by the biological transformation of living plants. Furthermore, tobacco and sugar cane also have the attempts to stabilize the nutrition, humidity, and fertility rate. The companies have also observed the growth in quality or quantity as a result of biological transformations. For instance, the change in quality includes the change in ripeness, amount of fat, and amount of protein that increase along with the age of the biological assets. The change in quantity involves the production of seed or offspring, weight gain, increase in length, or the diameter of the biological assets.

Reviewed from its time of biological transformation, tobacco is included in the biological assets that can be admitted as current assets. In the case of cocoa plants, they should be admitted as biological assets as well because they also have the characteristic mentioned in *PSAK 69*, but the difference lies in the classification of biological assets which classified them in the long-term type of asset.

4.3 Recognition and Measuring Biological Assets

The biological asset based on *PSAK 69* is classified based on the type and the age of the assets. There is no depreciation within the recognition of new types of plants, unproductive and productive plants. On the aspect of measurements, fair value is a method of measurement that is considered to have more reliable information rather than using acquisition cost. According to *PSAK 69*, fair value can be determined by using the recent market price as long as there are no significant changes between the date of transaction and the closing period of reporting; the market price for assets is identical with the adjustment; and the benchmark like the plantation value stated per acre and livestock value stated per kilogram.

According to the survey and interview with *PT MDR*, they did not admit tobacco as a biological asset in the corporate's financial report. The expenditure for purchasing seedlings is only recorded in the temporary bill. According to *PSAK 69*, that expenditure should have been included as biological assets, classified as current assets. However, it would not affect *PT MDR*'s annual financial report because they only make the report once a year, so in the process of making the corporate's financial report; the tobacco plants are already in the process of harvesting. The tobaccos will be admitted as the corporate's inventory. The amount in monetary term (Rupiah) attached to these inventories is calculated based on the market price when the corporate pays to the farmers or partners.

Just like *PT MDR*, *PTPN X Kebun Kertosari* also does not include tobacco and sugar cane as its assets in its financial report. The reason is because tobacco is a seasonal plant that has brief planting period. After the tobacco is harvested, the corporate will record the tobacco as supplies in accordance with the expenditures from the nursery to the processing of the plants. These inventories will be classified into two groups, they are finished goods (The Na Oogst and TBN types of tobacco) and in-process goods. The price attached to the supplies value depends on the analysis of compost filters and estimation of quality composition.

However, the cocoa plants are admitted as plantation crops that are classified as productive plant assets within the category of productive plants in the non-current assets with a 4% depreciation rate per year. If they have produced cocoa fruits, the cocoa plants will be recorded as supplies classified in the current assets. In *Perum Perhutani*, for perennials like teak, mahogany, jungle trees, and gum lac trees are admitted as plant assets in the corporate's financial position report and are categorized as unproductive and productive plants. The Rupiah value both in unproductive and productive plants is measured by the acquisition cost. The cost consists of the corporate's expenditures which covers the preparation of the soil, planting, fertilizing, and maintaining, as well as general costs which include the capitalization of loans for the development of the unproductive and under development plants. The value of the assets is still measured by the acquisition cost (without revaluation) despite the plants' constant growth and transformations. At the end of the reporting period, biological assets still use acquisition cost so the information of biological asset presented in the financial report does not show the real information. According to *PSAK 69*, they will recognize biological assets or agricultural products when, and only when:

1) The entities take control of the biological assets as a result of a past event; There is a huge possibility of future flowing economic benefits that are related to biological assets to the entities; and 2) The fair value or the acquisition cost can be reliably measured.

The criteria indicate that *PT MDR* should have admitted tobacco as biological assets within the category of current assets, despite having only seasonal plants. The measurement of the biological assets can be determined based on the cost of the raw materials, fertilizers, men power, and land lease. During the harvest, the costs will be reclassified into the tobacco inventory by considering the fair value of the tobacco. The biological asset is measured on the first recognition and on the final period of reporting on the fair value reduced by the selling cost. The measurement for the fair value of the biological assets or agricultural products can be supported by classifying the biological assets or the agricultural products with the suitable a significant attribute; for instance, based on age or quality.

4.4 The Disclosure

The aspects of presentation and disclosure of biological assets are the forms of corporate's biological asset report in the financial report. According to *PSAK 69*, biological assets that have not reached adulthood are presented as biological assets in the current asset group, while adult biological assets are presented as biological assets in the non-current group, and the supplies during the harvesting period are presented in the current asset.

The presentation and disclosure of tobacco in *PT MDR* can only reveal the tobacco after the harvest (they are presented as inventory account) so in the financial position report they do not show the type of the biological asset in the current asset group while the tobacco plants are still planted. The same thing is done in *PTPN X Kebun Kertosari*. The new types of tobacco and sugar cane are presented in the financial report after they become inventory and are ready to be processed. However, for cocoa, it is already presented in accordance with *PSAK 69*, which is presented as biological assets in the non-current asset group, while the cocoa fruits are presented as biological assets in the current asset group. According to *PSAK 69*, a company in the field of agriculture has to present reconciliation list of changes in the recorded value of the biological assets in the beginning and ending of the ongoing period. In *Perum Perhutani*, the biological assets are presented as plant assets in the corporate's financial position report and are classified as unproductive and productive plants. In addition, productive plants are classified into plants that are in development and plants that are ready to harvest. In general, all of the objects in the research are not ready yet to implement *PSAK 69* because there are consequences of using fair value which is very difficult to measure. Until this research is conducted, there has not been any effort by companies to socialize the use of *PSAK 69*. But in the future, hopefully there will be more efforts to give alternative solutions to overcome the difficulties of measuring fair value.

5. Conclusion

The result shows that corporations have not fully understood *PSAK 69* and in general are still using the basis of acquisition cost in measuring/valuing the biological assets in their companies. This will affect the reliability of the biological assets' information on their corporate financial report. In *PT Mangli Djaya Raya*, the making of financial report is prepared once a year, so the valuation of the biological asset tobacco does not require fair value recognition because the age of tobacco from planting the seedling to harvesting season is outside accounting period (the period of making financial report). In *PTPN X*, the biological assets (tobacco and sugar cane) are still recognized at their acquisition cost, but they have already recognize the biological assets in the statement of financial position. However, the tobacco has not yet been recognized as biological assets. The same goes for *Perum Perhutani* in valuing their biological assets in the form of perennials. The obstacle in applying *PSAK 69* is in deciding the fair value of biological assets because they are not available in active markets. The surveys and interviews conducted in this research shows that corporations are not ready yet to implement *PSAK 69*. The cause of this is the consequence in applying *PSAK 69* with the use of fair value as the means of measurement. Corporates have to value their biological assets when there is a transformation. However, the valuation of fair value will surely be very difficult considering that these biological asset plants are planted on vast areas; there is no active market that provides fair value accurately; there is lack of manpower or appraisal, and the knowledge of the employees about the *PSAK 69* is very low.

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