

Accounting for Restructuring under Common Control Entities: An Analysis of the Implementation of Accounting Standard

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*This paper addresses the issue of restructuring transaction under common control entities. Based on the Indonesian accounting standard, this transaction does not make any substantial changes in the economic ownership, even though ownership of shares, assets or liabilities or other instruments of ownership changes. Revision made in 2004 which is a revision to accounting standard number 38 year 1997 concerning restructuring accounting under common control entities is actually a move to improve the quality of financial statement in order to face transparency required in corporate management. This paper analyses a series of cross ownership transactions done in PT X and Y. These transactions, using similar accounting standard, result in different implementation in the financial statements of the two companies. The analysis done includes the qualitative characteristics of the quality of the two companies' financial reports. **To compare the circumstances, similar analysis is also made to companies listed in the Jakarta Stock Exchange (JSE) making the same restructuring transactions.** The status of government as common control entity is also taken into account, related to the control that the government has in the companies' business activities. The result of the research as well as the analysis shows that there is a weakness of The Indonesian Accounting standard number 38 (Revision of 2004), particularly related to the absence of transition regulations which results in different financial reports, both in the transaction of cross-ownership made by PT X as well as PT Y and by other listed companies in the Jakarta Stock Exchange. Different financial statements have reflected different performances, manifested in significant amount.*

Introduction

Statement of Accounting standard number 38 (Revision of 2004) is an accounting standard which regulates accounting matters related to restructuring transactions including assets transfer, liabilities, stocks or other ownership instruments between common control entities. This standar is a

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revision to the old one which was approved by the Committee of Accounting standard and authorized by Indonesia Institute of Accountant on September 5, 1997. As stated in the welcoming remark of the institute general executive board, the standard number 38 was made to complement standard number 22 concerning business combination, in order to balance accounting practices at international level. This issuance aims to result in similar perceptions as well as uniformity in the accounting practices related to restructuring transactions under common control entities. It is expected that with the issuance of a separated standard, the accounting implementation of the transactions will be of optimum equivalent. In line with standard number 38 year 1997, as restructuring transactions under common control entities do not result in changes of economic ownership of assets, stocks, liabilities as well as other exchanged ownership instruments, then the assets and liabilities whose ownership is exchanged (in their legal form) must be recorded based on their book value like business consolidation based on pooling of interest. The difference between the transfer price and the book value of each restructuring transaction under common control entities is recorded in the account of difference of restructuring transaction under common control entities. This balance will then be presented as part of equity. The difference of transfer price and the book value due to transactions under common control entities is not goodwill. The account balance of this difference will not alter caused by further transfer of assets, liabilities, stocks or other ownership instruments to entities which are not under common control.

There are many companies in Indonesia which have major ownership characteristics in one particular company. These companies are structured in holding/parent entities, subsidiaries, and sub-subsidiaries, and they are built by merger and acquisition. According to Palepu, Healy and Bernard (2004) these mergers and acquisitions aim to enhance the new economic value of the shareholders through the increase of economic of scale, company's performance, profit gained from exchanged resources and tax profit. At present, restructuring is a crucial step to take for companies providing telecommunication services. Restructuring is a way to reconstruct corporate elements in order to keep the rate of profit as well as to maintain sustainable growth. It is required to apply this policy due to the tight competition. Advancement of telecommunication technology occurring as a result of digital technology, internet and infrastructure network pushes telecommunication providing companies to keep improving. The capability to do this may be gained from two sources, either from the company itself or from external sources, through mergers, acquisitions, partnership or alliance (Kartajaya, 2004).

Stakeholders need to scrutinize the impacts of restructuring on companies, in order to make sure that restructuring transaction does not burden company's financial performance and it may benefit the company in the long term. In this regard, financial statements must be able to reflect the true effects of financial restructuring transactions on the companies. PT X and PT Y are two

telecommunication service companies which had cross-ownership as one of the ways to restructure their companies in 2001 and 2002. At that time, these two companies were business entities owned by the government, the percentage of the government's stocks at PT X was 51, 19% while at PT Y was 65%. The cross-ownership occurred as the stocks of PT T (35%) and PT D (13%), previously owned by PT Y, was sold to PT X, while the stocks of PT B (22, 5%), PT C (37, 66%) and PT D (13%), formerly owned by PT X, were sold to PT Y. In line with accounting standard number 38 year 1997, due to the restructuring transaction between these two companies as well as the difference between the transfer price and the book value of the traded shares, then per December 31, 2002, there was an account of the difference of restructuring transactions under common control entities in the equity of these two state-owned companies. This balance was Rp. 4.467.740 million in PT Y and a negative (-) of Rp. 7.288.271 million in PT X. Based on this balance, it can be concluded that based on these series of restructuring transactions, PT Y should have recognized a profit whereas PT X should have suffered a loss.

On December 15, 2002, the government of Republic of Indonesia sold 41.94% of its shares to a company in Mauritius. This activity has changed the status of PT Y; it is now a foreign investment company, which means that the control of Indonesia government on this firm is no longer exercised. In accordance with the implementation of accounting standard number 38 year 1997, then the account of difference of restructuring transactions under common control entities of PT X and Y does not change as recorded in the equity of these two companies. Based on accounting standard number 38 year 1997, these account and balance will keep appearing in the equity of both PT X and Y, even though the common control status of these two companies has come to an end since the end of 2002. Changes of accounting treatment related to restructuring transactions of PT X and Y have occurred since the issuance of revision to accounting standard number 38 in 2004. Based on the 2004 revision, common control entities will lose their common control nature when the assets, liabilities, shares or other ownership instruments authorized under common control entities are transferred to entities which are not under common control. One significant change caused by this revision is that the account of difference of restructuring transaction under common control entities may alter, and this change must be recognized as either a profit or a loss which is actualized. This change is caused by the following things:

1. The loss of the essence of control between entities which once made transactions.
2. The release of assets, liabilities, shares or other ownership instruments which causes the difference of restructuring transactions under common control entities to other parties which are not under common control.

In this regard, then PT Y recognized this difference which amounted to Rp. 4.467.740 million through the restatement of income statement of the book year of 2003. When it presented its 2004 income statement, PT Y recognized

it as an extraordinary profit. This resulted in the increase of PT Y net profit in the book year of 2003, amounting to Rp. 6.081.971 million. The increase in net profit was followed by the notation of financial statement of 2003 book year by the General Meeting of Shareholders. A different treatment was made by PT X. Unlike PT Y, this company did not recognize an extraordinary loss in its income statement, amounting to Rp. 7.288.271 million due to its restructuring transaction with PT Y; it only reclassified the account of difference of restructuring transactions under common control entities in its equity to be deducted from the retained earning balance, in the book year of 2005. In its annual report, PT X stated that this was done as directed by Bapepam-LK. Based on the things mentioned above, these different accounting treatments on the two companies are worth noticing, considering that the difference not only affects the company's net profit, the amount of which is quite significant, but also causes the delay of the filing of PT X financial statement in the Jakarta Stock Exchange, which eventually will influence the rights of shareholders and other stakeholders as well. On the other side, these two companies have listed their shares in New York Stock Exchange, meaning that the number of interested stakeholders increases.

The Illustration Of Restructuring Transaction Under Common Control Entities Of Pt X And Pt Y

1. Transactions In 2001

On April 3, 2001, PT X signed a Conditional Sales & Purchase Agreement with PT Y for several transactions of cross ownership of some companies. The agreement included the following transactions:

1. Acquisition of PT X of 35% of common shares of PT A with a price of US\$ 945 million.
2. Acquisition of PT Y of 22.5% of common shares of PT B with a price of US\$ 186 million.
3. Acquisition of PT Y of 37.66% of common shares of PT C with a price of US\$ 38 million, and conversion bond C, which was worth Rp. 4.501 million.
4. Acquisition of PT Y of all rights and novation of the entire liabilities of PT X (persero) based on an agreement of Joint Operation (KSO) IV dated October 20, 1995 between PT X and PT MGTI, and all contracts in which PT X (Persero) became a party related to all business activities resulting from the cooperation made based on the agreement of joint operation, along with the assets of PT X operated as assets of Joint Cooperation Unit with a price of US\$ 375 million. These transactions were then abrogated on February 1, 2002.

Transactions of PT A, PT B and PT C were treated as restructuring transactions under common control entities. The difference between the transaction price paid or received and the book value of investment net asset gained or the recorded value of sold investment was presented in the equity as

“The difference of restructuring transactions under common control entities”.

1. The presentation in PT X

PT X in the notation of its financial report for the book year of 2003 (audited) presents this account with the following details:

Table 1
2001 Transaction of PT X (in Million Rp)

Transaction	Transaction value paid/(received)	Book Value of Net Asset/Investment	Deferred Taxes	Differences in Equity Changes-Net	Differences		
					Amount	Tax	After Tax
A	10.782.450	1.466.658	337.324	-	8.978.468	-	8.978.468
B	(2.122.260)	-	-	(290.442)	(2.412.702)	(627.678)	(1.785.024)
C	(437.631)	116.834	-	-	(320.797)	(119.586)	(201.211)
Total	8.222.559	1.583.492	337.324	(290.442)	6.244.969	(747.264)	6.992.233

Source: Annual Report of PT X year 2003

Based on table 1 the net difference of each restructuring transaction of PT X can be concluded. Even though the balance of the difference of restructuring transactions is not recognized in the income statement, if it is seen as an independent legal entity doing divestment and a purchase of ownership of a subsidiary, then PT X in fact is suffering a loss of Rp 6, 9 trillion. Of a purchase transaction of PT A, PT X is suffering a loss of Rp. 8, 98 trillion, whereas from selling PT B and PT C, PT X gains a profit of Rp. 1, 78 trillion and Rp. 201, 21 billion respectively. The difference of the value of restructuring transactions under common control entities, which is worth Rp. 6.9 trillion, is presented in the equity of PT X financial statement of the book year of 2001.

2. The presentation in PT Y

In addition to the cross-ownership, PT Y on May 31, 2001 also acquired 100% of the capital of BMG from its shareholders with the price of US\$ 248, 27 million and Rp. 1, 41 trillion. This transaction was recorded using a purchase method. Goodwill derived from this transaction was Rp. 2.73 trillion. The surplus difference of the acceptable value of the net assets of BMG on its recorded value was Rp. 1, 72 trillion. BMG owns 45% of capital of B. After a direct acquisition from PT X (22.5%) and indirect acquisition from BMG (45%), the amount of capital of PT Y in B increased from 7.5% to 75%. The purchasing transactions of the shares of PT B and C have caused PT Y to suffer a loss of Rp. 2,09 trillion and Rp. 417 billion respectively. While from selling PT A, PT Y earned a profit of Rp. 6, 86 trillion.

2. Transactions In 2002

On April 19, 2002, PT X and all the shareholders of PT D, they were France Cables et Radio SA, PT Astratel Nusantara, PT Y, Marubeni Corporation,

International Finance Corporation (IFC) and NMP Singapore PTe, Ltd (collectively known as sellers), signed a conditional sales & purchase agreement (CSPA), from which PT X gained all the shares of D through the mechanism of escrow account. PT X paid the purchase with promisory notes, in stages, the amount of which was US\$ 390.308.972. Shares were not transferred at once, but in stages instead, with the following scheme:

- 30 % of shares on the initial closing date, done on August 1, 2002, and amended to August 15, 2002.
- 15% of shares on the interim closing date, at the latest was on September 30, 2003.
- 55 % of shares on the follow up closing date, at the latest was on December 31, 2004.

Based on *Stockholders Voting Agreement (SVA)* dated August 15, 2002, each shareholder of D gave an authority which permitted PT X to issue an authorization or a proxy letter which enabled PT X to gain voting rights from the escrow shares. SVA also regulates certain requirements which are in fact shareholder protective rights of sellers. Therefore, PT X has the rights to nominate all members of the directors as well as the commissioners of PT D. Based on the changes in the closing of initial transactions concerning the amendment of CSPA on August 1, 2002, then PT X has gained control of as well as has consolidated PT D since August 15, 2002.

1. Presentation in PT X

In connection with the ownership of 13% of PT D by PT Y, then there are restructuring transactions under common control entities. The difference of restructuring transaction under common control entities is counted from 13% of ownership of PT D by PT Y multiplied by the total difference between the purchasing price (net) and the historical value of the net assets (13% x 2.277.216 million).

2. Presentation in PT Y

The record made by PT Y is different from that of PT X. PT Y recognizes the difference due to the restructuring transactions under common control entities in 3 periods, which is parallel with the submission realization of the shares of PT Y to PT X, it was in 2002, 2003 and 2004. In the notation of the financial report, PT Y does not present the calculation of the difference of restructuring transaction under common control entities resulting from the selling transaction. Yet, in the report of changes in consolidated equity, the PT presents profit on investment selling on PT D to PT X with the use of pooling of ownership as much as Rp. 109.185 million in 2002 (for 5,9% shares) and Rp. 32.307 million (for 1,95% shares) in 2003. The rest of ownership, that is 7.15%, was done in 2004, recognized with a different method due to an important event which will be explained further.

3. Important Events Affecting Cross-Ownership Transaction

3. 1. The sales of the state-owned- shares in PT Y

Based on the Shareholder Agreement (SHA) made by the government, Indonesian Comunication Limited (ICL) and STT (shareholders of ICL), the government sold the shares owned by the state in PT Y as many as 434.250.000, serial number B (representing 41.94% ownership), with the transaction closing date December 20, 2002. The selling of shares owned by the Government has changed the status of PT Y, from Persero to Foreign Capital Investment, which was approved by The Ministry of Justice and Human Rights on March 23, 2003. This condition has reduced the rights owned by the government related to its shares of ownership, they are:

- The government of the Republic of Indonesia has agreed to vote jointly with ICL for a period of one year concerning dividend payment, changes in PT budgeting, business mergers, consolidation and acquisition made by the PT.
- The government no longer has the votes adhering to shares of serial number A Dwiwarna, concerning the determination of management of PT Y which allows the government to appoint one director and one commissioner only to sit in the management.

As these transactions occurred before the issuance of Revision of 2004 to ACCOUNTING Standard number 38, then the loss of common control status due to the loss of government control of PT Y by the end of 2003 does not change the balance of the difference of restructuring transaction under common control.

2. The sales of shares of PT A by PT X to STM.

Cross Ownership transaction between PT X and PT Y in 2001 has increased the ownership of PT X in PT A to 77.72%. On April 3, 2002, PT X made a CSPA with SPM, in which PT X sold 23,223 common shares (or representing 12.72% of ownership) of PT A with a price of US\$ 429.000.000 (or equals to Rp. 3.948.945 million). This transaction has decreased the ownership of shares of PT X in PT A from 77.72% to 65%. STM is a PT under an indirect ownership of Temasek (Holding) Singapore. As this transaction happened before the issuance of Revision of 2004 to Accounting Standard number 38, then the selling of shares of PT A to parties which are not under common control, which were obtained previously by restructuring transaction under common control entities, does not affect the balance of the difference due to the restructuring transaction under common control entities.

4. The Presentation Of *Cross-Ownership* Transaction Since Accounting Standard Number 38 (Revision Of 2004) Took Into Effect

1. Presentation of PT X

Based on the Capital Market Supervisory Agency and Indonesian Financial Institutions (BAPEPAM) concerning the initial implementation of accounting standard 38 (Revision of 2004) by public companies, companies are required to reclassify the account of the difference of restructuring transaction under common control entities as direct adjustment to retained earnings balance on the date of initial implementation if common control relationship has no longer been in effect per January 1, 2005. Therefore, the balance of the difference of restructuring transaction under common control entities on January 1, 2005, which was worth Rp. 7.288.271 million obtained from cross-ownership transaction between PT X and PT Y, was reclassified by debiting the balance of retained earnings on January 1, 2005. Reclassification resulted appears in the equity part so the value of net equity does not change.

The balance of the difference of restructuring transactions under common control entities which was worth Rp. 90.000 million in 2005 was a new transaction between the government of the Republic Indonesia and PT X. PT X signed a agreement on the Implementation of Compensation of Early Termination of Exclusivity Rights with the Ministry of Communication and Informatics, in which the government agreed to pay as much as Rp 478.000 million to the PT in stages. In 2005, the government made its first payment amounting to Rp. 90.000 million. PT X recorded this value as common control transaction between the government as a shareholder and PT X, which was worth Rp. 90.000 million.

2. Presentation of PT Y

In 2004, PT Y implemented the Accounting Standard number 38 (Revision of 2004) earlier. PT Y recognized the actualization of profit on the cross-ownership transaction with PT X, which had been credited to the “difference of restructuring transaction under common control entities” before. PT Y represented a consolidated financial statement for the year 2003 for the restrospective acknowledge of the actualization of the profit to Extraordinary account – Profit actualized on the difference of restructuring transaction under common control entities” in 2003 as much as Rp. 4.499.947 million, based on the balance of the difference of restructuring transaction under common control entities which existed before. This realization was made due to the divestment of the government shares which resulted in the loss of common control between PT X (persero) and PT Y.

Analysis And Discussion

1. Analysis Of The Qualitative Characteristics Of The Financial Statements Of PT X And PT Y On The Implementation Of Accounting Standard Number 38 (Revision Of 2004).

The analysis of qualitative characteristics of the financial statement of PT X and PT Y will be explained based on the types of qualitative characteristics which must be present in a company's financial report. The effect caused by changes of accounting standard has affected the quality of the presentation of the financial report of PT X and PT Y. The absence of regulation concerning the transition implementation of Accounting Standard number 38 (Revision of 2004) has made a significant difference between the financial report of PT X and that of PT Y, which is indeed caused substantially by a similar transaction. The basic revision of Accounting Standard number 38 for the year 1997 which was made in 2004 concerning cross-ownership transaction made between PT X and PT Y dealt with paragraph 17 Accounting Standard number 38 (Revision of 2004), stating that the balance of account of restructuring transaction under common control entities may change, in this case are particularly caused by:

The loss of common control status between PT X and PT Y since the divestment of the government shares in PT Y eliminated the common control in PT Y. The selling of shares owned by the subsidiary has caused an account of difference of restructuring transaction under common control entities, which was the selling of PT A to STM. However, Accounting Standard number 38 (Revision of 2004) paragraph 20 explains that if a change of difference of restructuring transaction under common control entities occurs due to the loss of common control status between common control entities to parties or the release of assets, liabilities, shares or other ownership instruments which underlies the creation of difference of restructuring transaction under common control entities to other parties not under common control, then the balance of difference of restructuring transaction under common control entities is recognized as a profit or loss which is actualized.

In terms of realization period, Accounting Standard number 38 Revision of 2004 does not explicitly explain when the realization must take place. Paragraphs 18-20 which address the realization of accounting treatment that must be made do not provide any guidance related to the time of implementation. The only guideline about the time of the realization is the time when Accounting Standard number 38 Revision of 2004 started to be in effect, that was the effective date. Paragraph 22 explains that it is to be in effect for the construction and presentation of financial reports made on or after January 1, 2005, even though the events causing the changes (realization) on the account balance of difference of restructuring transaction under common

control entities happened in the years before 2005. However, paragraph 22 also recommends early implementations. The interpretation is that the actualization of this balance account can be made before 2005. As there is suggestion to realize the account balances happening before 2005, then there are choices for the PT's management when to actualize the account balances as long as they are not against the accounting principles or other accounting standards.

PT Y implemented the Accounting Standard number 38 (Revision of 2004) by recognizing the profit realization on cross-ownership transaction which was before credited to "the difference of restructuring transaction under common control entities" to "extraordinary account – actualized retained earning on the difference of restructuring transaction under common control entities" in 2003 as much as Rp. 4.4999.947 million. PT Y implemented it when the PT presented the financial report of 2004 book year. As previously explained, based on the regulation of BAPEPAM-LK related to the early implementation of Accounting Standard 38 (Revision of 2004) by public companies, PT X reclassified the balance of difference of restructuring transactions under common control entities on January 1, 2005 as much as Rp. 7.288.271 million derived from cross-ownership transaction between PT X and PT Y by debiting the balance of retained earning on January 1, 2005. This reclassification does not affect the amount of total equity per December 31, 2005.

The BAPEPAM regulation and the reclassification of the balance of the difference of restructuring transaction under common control entities into the balance of retained earnings show a mismatch with Accounting Standard number 38 (year 2004) especially with paragraph 20. For PT X, the impact raised is that the cross-ownership transactions are not released in the income statement, either during the time when the transaction happened or during the time when the common control status with PT Y came to an end, that was when the selling of a subsidiary (PT A) which was obtained from common control entities to a third party took place, and when the Accounting Standard number 38 (Revision of 2004) started to take effect. In accordance with the notation of financial statement of PT X in 2005, the reclassification of balance done by PT X is to implement the changes in accounting policies caused by the new accounting standards. Reclassification by deducting the retained earnings has similar characteristics with retrospective implementation, as explained in paragraph 45 Accounting Standard number 25 concerning net profit or loss for the ongoing period, basic mistakes and changes in accounting policies (reformat 2007), that is:

"45. A change in accounting policies must be implemented in a retrospective way by reporting the amount of each adjustment made which is related with previous period as an adjustment in the balance of retained earning at the initial period, unless the amount cannot be determined appropriately. Comparative information must be restated, unless it is considered impractical to apply it."

As regulated in paragraph 42 of ACCOUNTING Standard number 25 year 1995, a change made in accounting policy due to an implementation of an imposed financial accounting standard should be accounted for, based on the transition regulation set in related ACCOUNTING STANDARD. If there are no transition regulations and for all changes of other accounting policies, policies of changes in accounting policies must be implemented based on paragraph 45 (and paragraph 48 and 49) ACCOUNTING Standard number 25 year 1995 stated above. Since there are no transition regulations in ACCOUNTING Standard number 38 (Revision of 2004), then companies must implement accounting treatment in a retrospective way, unless the amount adjusted in the retained earning cannot be determined in an acceptable manner. That's why, it is in line with the a retrospective accounting treatment as stated in paragraph 45 ACCOUNTING Standard number 25 year 1995 to reclassify the balance of difference of restructuring transaction under common control entities into the balance of retained earnings, both by PT X and other listed companies. These other listed companies have gone through 4 (four) conditions based on paragraph 17 of ACCOUNTING Standard number 38 (Revision of 2004).

One of the benefits gained by companies applying retrospective implementation is the restatement of comparative information due to retrospective implementation does not make any changes in the financial statement having been agreed by shareholders (the General Meeting of Shareholders) or the one having been noted or kept by an authorized party (for example regulators of capital market), and there is neither a change nor an adjustment in the income statement. The re-presentation of financial statement of 2003 by PT Y which resulted in the increase of net profit from Rp. 1.569.967 million to Rp. 6.081.974 million in fact could be the potential to increase dividends paid to shareholders in a significant amount. However, the shareholders did not take advantage of this situation and there was only a ratification of net profit for the book value of 2003 in the Annual General Meeting of Shareholders for the year book of 2004 instead.

1. Understandable

During the Cross-Ownership transactions, both PT X and PT Y acknowledged a difference between book value and transfer price into the equity as an account of difference of restructuring transactions of common control entities. As entities which are under the government control, then profit or loss yielded by each party will automatically increase or decrease owner's capital. Therefore, users of financial reports will find no difficulties in recognizing the effect of these transactions in the financial reports of both PT X and PT X Tbk. Realization of either a profit or loss in the income statement is intended for users of financial statements, especially of income statement. These users will immediately know the changes in the PT's financial position. They evaluate the income statement every year in order to find out the growth as well as the performance of the PT.

User of financial reports, particularly of income statement, will get information that the profit contribution of PT A to the PT is very big. However, the income statement is not capable of providing information that there has been a sacrifice borne by PT X (Persero), that is the negative difference amounting to Rp. 8.978.468 million due to the acquisition of PT A from PT Y. This was indeed reflected in the decrease of equity occurring in 2001, and was also stated in the notation of financial report, yet, it was not revealed in the income statement. With the loss of common control between PT X and PT Y, then this balance is no longer a negative difference of equity subtractor, but is now a loss in acquisition, made by a PT, which is supposed to be revealed in the income statement. However, this acknowledgment is in line with ACCOUNTING Standard number 25 which regulates changes in accounting policies due to changes in accounting standards which do not provide transition regulation. Sound knowledge is required from users of financial statement in order to understand these circumstances. From the point of PT Y, it is quite easy for users of income statement to understand the actualization of either a profit or a loss in the cross-ownership transaction. This is because the realization is presented as an extraordinary account separated from the PT's retained earning of the ongoing operation. Therefore, the financial statement calculates the cost and benefit rising from the cross-ownership transaction.

2. Relevance

Relevance concept is related to substantive, information, predictive value and confirmatory value, which emphasizes that relevant economic information will result in different economic decision. If it is considered based on the limitation of materiality set by BAPEPAM regulation number IX E.2. year 2001 concerning Material transaction and changes in business main activities, then this cross-ownership transaction has met the material criteria (10% of revenue or 20% of equity). The income statement of PT X will change significantly due to the different accounting treatment on the balance of account showing the difference of restructuring transaction of common control entities. This significant decrease in profit very much influences the PT, it especially affects the dividend rights of stockholders. This difference is some kind of information relevant to decision makers, particularly the RUPS of PT X (or the General Meeting of Shareholders). The decision to pay dividends of the net profit of the book year 2005 as decided in the Annual General Meeting year 2006 might have been different if accounting treatment conducted had been in line with Paragraph 20 ACCOUNTING Standard number 38 (Revised 2004) which only yielded a net profit of Rp. 705.295 million.

The decrease of equity value in the year 2001 and 2002 due to Cross-ownership transaction shows Confirmatory Value, meaning that in substance the PT has sacrificed a lot in order to survive and increase its performance. The difference of restructuring transactions has significantly reduced the equity value of PT X, which amounts to (-) Rp. 7.288.271 million or equals to 49.8% of the amount of equity in 2002, which was worth Rp. 14.613.617 million. However, as the realization of this activity is not presented in the income

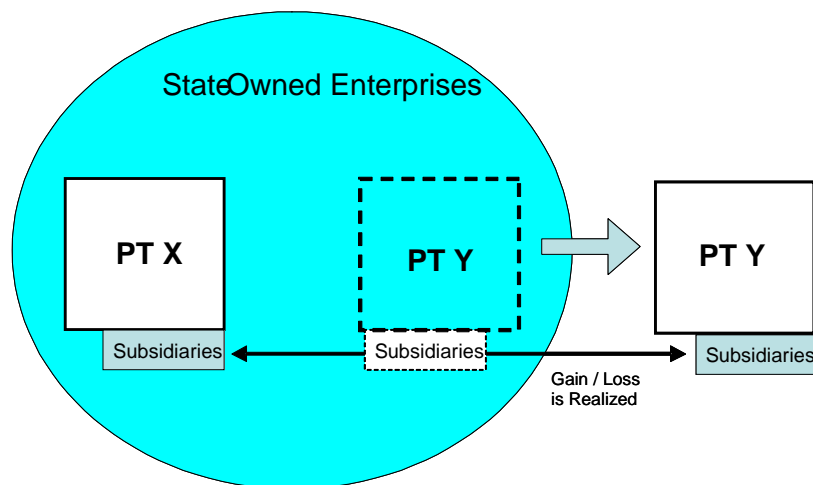
statement, then the Confirmatory Value lessens, though it can still be found in the retrospective acknowledgment in the balance sheet, which is in accordance with ACCOUNTING Standard number 25 Year 1995. Next, it will be very difficult to accurately determine the predictive value as the financial performance stated in the income statement of PT X only implicitly reflects the result gained from Cross-Ownership transaction. In this transaction the profit contribution of PT A to PT X is increasing, yet the sacrifice experienced during the acquisition of PT X is not shown.

3. Reliability

Financial report should avoid misleading conception, material mistakes, and certainly it should provide reliable presentation. Values that should exist in reliable financial report among others are the principle of substance over form, neutrality, sound consideration and also completeness. With the absence of common control status between PT X and PT, then Cross-Ownership should be treated as common acquisition transaction. Based on either legal or economic substances, parties involved in the transaction should acknowledge that both sides sustain either loss or gain over the transaction of trading PT's subsidiaries. In common control entities, realization of loss and profit resulting from the difference between book value and conversion price is the consequences of either losing common control status or selling assets, liabilities, stocks, and other ownership instruments to parties that are not part of common control entities. Thus, when PT Y is sold to a third party, then both profit and loss over the transaction between state-owned enterprises should be actualized on the same period..

Figure 1.

The absence of common control status between PT X and PT Y



Realization of the difference between book value and acquisition price by PT Y was realized in 2003, while the absence of common control status between PT X and PT Y became effective in 2002. This shows that there is periodicity problem of mismatching between the period of the event that required profit

realization and the period of profit realization itself. Same thing happened to PT X. Reclassification in 2005 or the imposition of ACCOUNTING STANDARDNo. 38 (Revision of 2004) has made the period of the event resulting in profit or loss realization refrain from the period of recognition in the company's financial statement. As for PT X, realization period is shown with the selling of government's stocks in PT Y and the selling of part of PT A's stocks to the party that is not in the common control.

4. Comparability

Principle of comparability is implemented in the form of re-presentation of financial reports of the previous years by both companies. With the implementation of ownership consolidated method, when the Cross-Ownership transaction occurs, both PT X and PT Y re-presented the financial statements of the previous years. In the 2001 financial statement, PT X re-presented its Balance Sheet in the year of 2000 as well as its Income Statement in 2000 and 1999. For the purpose of reporting, PT X merged with PT A as if both companies had been merged since the beginning of the presented period. Same thing goes for PT Y. On its financial statement in 2001, PT Y re-presented its Balance Sheet in 2000 as well as its Profit and Loss Statement in 2000 and 1999, to show as if the acquisition had occurred since the beginning of presented period in the consolidated financial statement in 1999. Adjustments have been made to those presentations to include part of PT B's business and consolidation of PT C's net assets.

Transition in accounting standard which resulted in material transition caused difficulties for financial statement end-users in doing the analysis to obtain comparable financial statement. Same thing goes for ACCOUNTING STANDARDNo. 38 in 1997 and ACCOUNTING STANDARDNo. 38 Revision in 2004. Fundamental changes lying on the accounting treatment to the difference of book value and conversion price impose difficulties in comparing financial statements containing restructuring transactions under common control entities that occurred in years prior to the imposition of ACCOUNTING STANDARDNo. 38 (Revision in 2004). In the period of implementation of Revision of 2004 to ACCOUNTING STANDARDNo. 38, both companies applied different treatment over realization of balance from the differences of restructuring transaction under common control entities. In the year of 2004, PT Y re-presented its Balance Sheet of 2003 as well as the Income Statements of 2003 and of 2002, and implemented ACCOUNTING STANDARDNo. 38/2004 by realizing the balance from the difference of restructuring transaction under common control entities in an extraordinary post in 2003. As a result, the net profit of PT Y in 2003 increased from Rp. 1.569.967 million to Rp. 6.081.974. Meanwhile PT X did the reclassification of the balance from the differences of restructuring transaction to the retained earning in 2005, so that both the equity value of 2005 and the Income Statement remained the same.

When all parts of financial statement (including Balance Sheet, Income Statement, statement of equity conversion and statement of cash flow) of PT Y, starting from Cross-Ownership transaction up to the realization of the balance differences of restructuring transaction under common control entities, are re-presented, , then the financial statement is comparable as each part of it describes Cross-Ownership transaction. For the purpose of comparing PT X's financial statement from Cross-Ownership transaction to the balance realization of the differences of restructuring transaction under common control, then analysts have to make necessary adjustment by submitting the impact of Cross-Ownership transaction into the Income Statement.

2. Comparison Between A Case And The Implementation Of ACCOUNTING Standardno. 38 (Revision Of 2004) To Listed Companies In The Jakarta Stock Exchange

Comparison between Cross-Ownership transactions of PT X and PT Y to restructuring transaction under common control entities by listed companies in the Jakarta Stock Exchange is for the purpose of finding out if there are differences in accounting treatment in implementing ACCOUNTING STANDARDNo. 38 (Revision of 2004), and to what extent that accounting treatment illustrates the quality of information of a company's financial statement. Research to find out about the implementation of ACCOUNTING STANDARDNo. 38 (Revision of 2004) to all listed companies in the Jakarta Stock Exchange began with the identification of listed companies involved in restructuring transaction under common control entities, according to the list of listed companies in the period of ACCOUNTING STANDARDNo. 38 (Revision of 2004) in 2005. The author made a review on the existence of assets conversion, liabilities, stocks or other ownership instruments conducted by those listed companies in order to reorganize all entities in one group of business.

The availability or unavailability of an activity of restructuring transaction under common control entities in a company based on their financial statement can be viewed in terms of:

1. Account balance of the difference of restructuring transaction under common control entities, concerning either the existence or transition.
2. Re-statement of financial statement from the beginning of comparison period caused by the usage pooling of interest method in consolidating business and acquisition. Special accounts that might appear in the re-presented financial account are:
 - Liabilities document over restructuring transaction of common control entity (Balance Sheet).
 - Capital document over restructuring transaction of common control entity (Balance Sheet).
 - Minority rights over PT's subsidiary's net assets.

- Profit performance from restructuring transaction of common control entity (Income Statement).

Surveys on 326 listed companies in the Jakarta Stock Exchange showed the following result:

1. 86 companies dealt with restructuring transactions under common control entities even before 1997 (ACCOUNTING STANDARD No. 38 was applicable before revision) until 2005.
2. 240 companies did not deal with restructuring transactions under common control entities.

Further research on listed companies dealing with restructuring transaction under common control entities showed various kind of transactions, which are as follows:

1. Stocks acquisition on common control subsidiaries by 49 (forty nine) companies.
2. The selling of stock ownership of common control subsidiaries or sold to common control party by 11 (eleven) companies.
3. Selling or buying fixed assets by 6 (six) companies.
4. Merger between companies with other common control companies, by 7 (seven) companies.
5. Dilusi over stocks ownership on companies' subsidiaries for not using the rights to get initial offering in issuing common control subsidiaries new stocks, was conducted by 3 (three) companies.
6. Conversion of liabilities, receivables and bonds into stocks ownership or fixed assets, was conducted by 3 (three) companies.

Restructuring transaction under common control entities which was conducted before the year of 1997 occurred to 4 (four) companies, and the rest was conducted in the period of 1997 until 2005. To get the exact comparison on the implementation of ACCOUNTING STANDARD No. 38 (Revision in 2004) between PT X - PT Y and emiten of Jakarta Stock Exchange, then the restructuring transaction under common control entities of listed companies in the Jakarta Stock Exchange must have same pattern with those of PT X – PT Y, which include the following two activities:

1. Activity of new transaction which resulted in the balance of the difference of transactional restructuring value of common control entity in PT's equity. ACCOUNTING Standard number 38 (Revision in 2005) did not change the accounting treatment in ACCOUNTING Standard number 39 in 1997, which was applied to this activity.
2. Activity of restructuring transaction under common control which caused the adjustment (realization) of balance account of the difference of transactional restructuring value of common control entities in PT's equity and was not considered as new transaction. ACCOUNTING Standard number 38 (Revision in 2004) adjusted the accounting treatment in ACCOUNTING Standard number 38 in 1997, which was applied to this activity.

Of 86 listed companies conducting restructuring transaction under common control entities during the period of survey, apart from PT Y and PT X, it turned out that only 7 (seven) listed companies conducted both the two activities mentioned above. Transactions that can result in the adjustment (realization) account of the difference of transactional restructuring value between common control entities, is preceded by initial transaction that can result in this account. Initial transaction occurred from the beginning of the PT's establishing. However, this balance account has existed since ACCOUNTING Standard number 38 / 1997 became effective. According to the old standard of ACCOUNTING STANDARD, this account remains the same if substances of common control no longer exist. With the Revision of 2004, this account can be adjusted and is realized in accordance with the conditions exist on paragraph 17, as follows:

1. The absence of status of common control conducted by companies.
2. Selling stocks to PT's subsidiaries that can cause the difference of common control restructuring transaction to the uncommon control party.

Analysis of the implementation of ACCOUNTING Standard number 38 Revision in 2004 on the activities of transaction that can result in the adjustment (realization) of account of common control entity restructuring transaction, will be explained in accordance with those kind of activities.

1. The absence of common control status experienced by companies

The absence of substance of common control status is caused by the inexistence characteristic of control or being controlled or being under the same control, between parties conducting restructuring transaction under common control entities, both directly and indirectly. Of 7 (seven) listed companies, there are 2 (two) companies which lose the substance of common control. They are:

1. PT Bank Buana Indonesia Tbk (BBIA)
2. PT Indocement Tunggal Prakasa Tbk (INTP)

With the absence of common control substance status, there are no restructuring transactions between common control entities. Therefore, the difference between conversion price and book value of assets, liabilities, stocks and other ownership instruments that was diverted must be recognized as realization of loss or profit. The loss of common control status caused the changes in the legal form of ownership over assets, liabilities, stocks and other ownership instruments being exchanged, and was followed by the adjustment of ownership economic substance.

The followings are the result of analysis on both companies. To simplify the presentation, account of the difference of restructuring transaction under common control entities will be called STRES.

1. PT Bank Buana Indonesia Tbk (BBIA)

The above Table showed that the balance of the difference of restructuring transaction under common control entities has negative balance. It means that as a separate legal entity, the company's position actually suffers a loss on selling land and building. Since the transaction in 1997, the company recognized this substance of loss in the account of the difference of restructuring transaction under common control entities as a decreasing equity of the amount of Rp. 6.220 million. Then, in 2005, they deleted this account balance by adding Rp. 6.220 million to that account. ACCOUNTING Standard number 38 Revision of 2004 stated that the balance of the difference of restructuring transaction under common control entities should be recognized as realization of either a profit or a loss. Based on the Income Statement and Statement of company's Equity Adjustment in 2005, there was no realization of either a profit or a loss. As a result, equity in 2005 increased to as much as Rp. 6.220 million as the consequences of the realization. This is not in accordance with the real condition where the PT should actually suffer a loss over the transaction. If we see the overall equity from 1997 to 2005, then the elimination or the realization of account balance of the difference of restructuring transaction under common control entities in 2005 in fact eliminated the substance of surplus/deficit of book value from the conversion price of the exchanged assets. Thus, the Financial Statement did not reflect the condition of the real economic events.

2. PT Indocement Putra Prakarsa Tbk (INTP)

The above table shows how companies applied ACCOUNTING Standard number 38 Revised in 2004 earlier. For that purpose, the company represented its statement equity's adjustment in the book year of 2003 and 2004. It eliminated the balance of the difference of restructuring transaction under common control entities resulting from the above five transactions and realized it in the form of deduction to retained earning. Substantially, the flow of transaction is presented accurately in the balance sheet. Yet, though the flow of transaction is already substantially depicted in the balance sheet, the absence of recognition reflected in the Income Statement will reduce the reliability of Financial Statement itself. In the absence of common control substance, then the profit or loss resulting from the merger and acquisition transactions should be reflected in the Income Statement. Financial Statement end-users could then comprehend the position of the company's profit in the current year, after all revenues are deducted by all current liabilities. In the case of PT Indocement Tunggal Prakarsa Tbk, the sum of account balance of the difference of restructuring transaction under common entities realized in the year of 2003 amounted to negative (-) Rp. 1.496.515 million. This has exceeded the net profit of 2003 which amounted to Rp. 670.290 million. The company would suffer a loss if they realized this balance in the Income

Statement. As for financial statement end-users, the difference resulted was considered as relevant information in the decision making process.

IV.2.2 Stock Redemption On Company's Subsidiary's Causing The Difference Of Restructuring Transaction Under Common Control Entities To Uncommon Control Party.

The stock redemption on company's subsidiary which underlaid the difference of restructuring transaction under common control to parties which were not under common control occurred in 5 (five) companies, including PT X. Analysis of those five companies are as follows:

1. *PT Barito Pacific Timber Tbk (BRPT)*

On conversion transaction of 14.45% PT Musi Hutan Persada shares owned by Marubeni Corporation for company's liabilities settlement, the treatment applied was the same as of PT X. Only it was applied earlier which was on stock selling period to third party in the year of 2003. The company omitted the balance difference of restructuring transaction under common entities resulting from this transaction, and reclassified it to retained earning. Thus, the Income Statement did not completely show the impact of this transaction. On the second transaction, there was the release the entire stocks of PT Musi Hutan Persada as much as of 39.55% to Japan Indonesia Petrochemical Investment Corporation, realization was done in accordance with the provision of paragraph 20 ACCOUNTING Standard number 38 Revision of 2004 which recognized transaction balance of common control entity restructuring as a realized loss even though this action could affect on the decreasing of the company's net earning in the year of 2005 which amounted to Rp. 1.554 billion.

2. *PT Indocement Tunggal Prakarsa Tbk (INTP)*

Restructuring transaction with common control entity has been done by PT Indocement Tunggal Prakarsa Tbk since before ACCOUNTING Standard number 38/ 1997 became effective. Selling investment to uncommon control party made the company do the reclassification which had been done earlier by PT X, e.g. to financial statement for the year of 2003. Thus, the Income Statement did not fully present the impact of this transaction.

3. *PT Kageo Igar Jaya Tbk (IGAR)*

PT Kageo Igar Jaya Tbk acquired shares of PT Avesta Continental Park from Chronicle Trading Ltd (PT's subsidiary) to increase direct ownership from 52,7% to 76,47%. The selling of subsidiary to uncommon control party in the year of 2001, caused the company to reclassify as what had been done earlier by PT X, e.g. on the Income Statement of 2004. Thus the Income Statement did not fully present the impact of the transaction.

4. PT Prasadha Aneka Niaga Tbk (PSDN)

PT Prasadha Aneka Niaga Tbk reduced the balance difference of restructuring transaction resulting from selling subsidiary to uncommon control party as illustrated in the table above. Record on Income Statement showed the realization recognition over the difference of restructuring transaction under common control entities as profit in investment in shares of stock in the consolidated Income Statement in the year of 2005. Yet, there's no profit recognition in the Income Statement especially in other revenues (expenses) or extraordinary post. Profit in the investment in shares of stock in the Income Statement however only presented profit in selling subsidiary to third party, not the realization of difference balance of common control entity restructuring transaction which actually became profit or loss which was not realized because of PT's common control status when acquisition of subsidiary occurred.

5. PT Tirta Mahakam Resources Tbk (TIRT)

PT Tirta Mahakam Resources Tbk acquired shares of PT Windu Nabatindo Lestari in 2003 from common control party and sold it to PT Bumitama Gunawijaya Agro (uncommon control entity) in 2005. By selling subsidiary to uncommon control party in 2005 caused the PT to reclassify as has been done by PT X, e.g. on the Income Statement of 2005. The Income Statement did not fully present the impact of transaction. However, transaction disclosure is already in accordance with the retrospectively recognition on the conversion of accounting policy over the conversion of accounting standard because of the absence of provision on transition.

IV. 3. Comparison Of Accounting Standard Number 38 (Revision Of 2004) With The International Accounting Standard and United States Accounting Standard.

PT X and PT Y are companies listed in the Jakarta Stock Exchange and New York Stock Exchange so that they have to obey the Indonesian, the United States as well as the International accounting standards.

IV. 3.1. The International Accounting Standards

International accounting standard concerning merger-related accounting is International Financial Reporting Standard (IFRS) No. 3, issued by the International Accounting standard Board (IASB) and has become effective since March 31st 2004. This IFRS no. 3 substitutes International Accounting Standards (IAS) No. 22 with significant changes. Although IFRS No. 3 has substituted IAS, there is no amendment or revision to ACCOUNTING Standard number 22 year 1995. ACCOUNTING Standard number 22 of 1995 and IFRS Number 3 of 2004 explicitly stated in the part of standard scope that the standard will not be applied on common control entity restructuring transaction. With this exception, DSAK then issued special standard that is ACCOUNTING Standard number 38 of 1997 and ACCOUNTING Standard number 38

(Revision in 2004) about accounting of restructuring transaction under common control entities. On the contrary, IASB does not issue special standard for this transaction. Merger activity by common control entity is not prohibited to apply either IFRS No. 3, or other methods (Epstein & Jermakowicz, 2007). Selecting certain accounting policy must be consistently in line with the selection of accounting policy which is regulated in International Accounting standard(IAS) Number 8 about Accounting Practices, Changes in Accounting Estimates and Errors. Entities must be concerned with all of these. Exposure Draft from the Amendment of IFRS Number 3 published by IASB on June 2005 also does not regulate restructuring transaction under common control entities. IASB also does not establish special standard to regulate it. In appendix B of paragraph BC9 of the Exposure Draft, it is stated that IASB will consider regulation about common control entity restructuring accounting for the future time. Based on those things, if the implementation of Cross-Ownership transaction by PT Y and PT X is in accordance with the international standard, then both companies could choose the most appropriate accounting method as long as it is in accordance with IFRS Number 3. The focus of International Accounting standard is that the method selected does not conflict with the IAS Number 8, which regulates the provision of retrospective implementation as regulated in ACCOUNTING Standard number 25 in 1995.

IV. 3.2. United States Standard.

Due to the status of PT X and PT Y whose shares are listed at NYSE, then both companies must obey the United States Generally Accepted Accounting Principles (US. GAAP). Both companies hand over their financial statements to BAPEPAM-LK (Capital Market Supervisory Agency) in line with ACCOUNTING STANDARD, and to US Securities and Exchange Commission (SEC) according to US GAAP. IFRS Number 3, paragraph 2 concerning the scope of FSAB Statement Number 141 year 2001 and FASB Statement Number 141 Revision 2007 concerning Business Combination also do not provide regulation on common control entity restructuring transaction. FASB Statement Number 141 paragraph B4 and FSAB Statement Number 141 (Revised 2007) paragraph B59 stated that the agency considers common control entity business consolidation accounting will be determined in other project. FSAB nevertheless provides guidelines in common control entity business consolidating accounting, that is on FSAB Statement Number 141 Appendix D paragraph D11-D18. It is stated in the net assets transferred must be recorded at their carrying amounts of the acquired company. The Balance Sheet and Income Statement should be presented as if the transaction were done from the initial period of financial statement presentation. Thus the previous financial statement has to be re-presented. In this case, ACCOUNTING Standard number 38 /1997 and ACCOUNTING Standard number 38 Revised in 2004 provide the same statement.

FSAB Statement Number 141 Paragraph 14 and Appendix D Paragraph D13 stated that particularly for part of ownership acquisition of non controlling

equity interest in subsidiary, then the method applied is the purchasing method, even though the acquisition on non controlling equity interest is conducted by holding PT, its subsidiary or even other affiliated companies. Besides, FSAB does not provide guidelines concerning the different recognitions between book value and acquisition price in the statement. This is the difference between FSAB and ACCOUNTING Standard number 38/1997 as well as ACCOUNTING Standard number 38 (Revised in 2004). The FSAB Statement Number 141 (Revised in 2007) in Appendix D provides instruction on the implementation of common control entity restructuring transaction, that is:

“D9. When accounting for a transfer of assets or exchange of shares between entities under a common control, the entity that receives the net assets or the equity interests should initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. (FAS 141, D12) If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, for example, because push-down accounting had not been applied, then the financial statements of the receiving entity should reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control. (EITF Issue 90-5)”

The provision above shows that the value of net assets of the acquired company should be recognized at their carrying amounts. If the carrying amounts of the net assets transferred differ from historical cost of the acquired parent company, then the value transferred to the company acquired another company is the historical cost recorded in a main book of the acquired company. FSAB Statement Number 141 year 2001 and the revision conducted in 2001 did not provide guidelines for the absence of common control substance between the two companies doing the transaction. Records Number 43 letter k on the financial statement of PT Y with 20F format arranged to meet the United States Accounting standard, declared that in accordance to United States accounting standard, profit or loss documentation resulting from business merger transaction can only be done in the absence of common control characteristic. Thus, the difference realization of common control entity restructuring transaction of PT Y's extra ordinary profit in 2003 should be eliminated and reversed to its initial position. Based on that, it is concluded that profit can not be realized in the absence of common control status, because that profit resulted from common control restructuring transaction. Acquisition profit is recognized in transaction between uncommon control entities as regulated in FASB Statement Number 141 through purchase method practice.

IV. 4. Review On Government Status As Common Control Entity

The government has various functions related to its position as the executive function of a Country.

IV. 4.1. Government As Business Regulator

The government functions as business regulator can be seen in the provision of Article 33 paragraph (2) and (3) of Last Amendment (fourth) of 1945 Constitution, that is:

Article 33 paragraph (2):

(2). Branches of production which are important for the state and which affect the lives of most people shall be controlled by the state.

Article 33 paragraph (3):

(3). Land and water, and the natural resources found therein, shall be controlled by the state and shall be exploited for the maximum benefit of the people. Based on both articles for the purpose of people prosperity, the President through his technical Ministers makes regulations on business sectors in Indonesia. The following tables are the examples of Government regulator's role:

Table 16.

Besides that, the government also put into effect regulations on certain aspects which require considerable attention for business world, among others, Regulations Number 40/2007 on corporation, Regulation Number 13/2003 on Manpower, Regulation Number 19/2003 on BUMN, Regulation Number 19/2002 on Copyrights, and Regulation Number 23/1997 which regulating Environmental Management. PT X and PT Y which are engaged in telecommunications services, have to obey all of the provisions specified in the Regulation Number 36/1999 on Telecommunications. Government applies specific regulations for companies engaging in telecommunications business, through various kinds of administration regulations of the regulation Number 36/1999 in the form of Government Regulation, the decree of the Minister of Information and Communication, the decree of Official in charge under the Minister of Information and Telecommunication, Bureau of Indonesian Telecommunication Regulation etc.

In the notation on Financial Statement of PT Y for the book year of 2004 stated that following the regulation's reformation on regulation for Telecommunication sector through Regulation Number 36/1999 on Telecommunications and the decree of Minister of Communications of Republic of Indonesia Number KM 72/1999 on the Blue print of the Government Policy on Indonesian Telecommunications, PT Y made a Cross-Ownership transaction. The decision of the Minister of communications of Republic of Indonesia Number KM 72/1999 on the Blue Print of Government Policy on Indonesian Telecommunications on Article 2 affirmed that it is essential to use the blue print as a guidance in establishing regulations and organization of national telecommunications. Based on further analysis, the departure point of Cross-Ownership transaction began with the Blue Print of Government Policy on Indonesian Telecommunications. According to appendix 1 on State-Owned

Enterprise (BUMN) administrator telecommunications restructuring on Section 2, in accordance with the policy to repositioning and restructuring of PT X and PT Y as the administrators of full fixed telecommunication provider and competitive, then internal restructuring in PT X and PT Y needs to be done in order to:

1. eliminate joint ownership by PT X and PT Y in an affiliated telecommunications PT.
2. eliminate subsidiaries ownership engaged in core business or in the same services area with their holding PT.
3. release joint obligation with other PT as required by Regulation Number 36/1999 about Telecommunications.

In the year of 2000 before Cross-Ownership transaction existed, PT X and PT Y are in the position of having joint ownership on subsidiaries as follows:

1. PT A
 - PT X ownership of 42,72%
 - PT Y ownership of 35%
2. PT B
 - PT X ownership of 42,72%
 - PT Y ownership of 35%
3. PT C
 - PT X ownership of 37,66%
 - PT Y ownership of 32,64%

With the existence of the Blue Print of Government Policy on Indonesian Telecommunications, then the Cross-Ownership between PT X and PT Y has to be eliminated, and both companies made the Cross-Ownership transactions in 2001. Thus, it is concluded that the Cross-Ownership transactions are the consequences of Government Policy as telecommunications business regulator. Apart from its role as sectoral regulator, the Government is also in charge for collecting taxes which is in line with the power given by Constitutional 1945 Article 23A affirmed that the annual state budget shall be laid down by law, that is Taxes Regulations, among others Regulation Number 16 / 2000 on the General Provisions and Taxes Procedures, etc. As tax collector, Government through director general of Taxes also collecting taxes resulted from common control entity restructuring transactions by PT X and PT Y.

IV. 4.2. Government As Capital Market Regulator.

Besides regulating subsidiaries business sector, Government becomes regulator in the Indonesian capital market, through an agency under the Minister of financial of the Republic of Indonesia, that is Capital Market Supervisory Agency – Financial Institution (BAPEPAM - LK). Regulation

Number 8/1995 on Capital Market, Regulation Number 40/2007 on Corporations, and other regulations regulated on Corporations are used as law basis. As a regulator of Capital Market, Government work through Capital Market Supervisory Agency – Financial Institution (BAPEPAM – LK). The Capital Market Supervisory Agency – Financial Institution (BAPEPAM – LK) has issued various regulations for Stock Exchange, Clearing and Underwriting Institutions, Institution of Saving and Settlement, Mutual Fund, Securities PT, Securities Agent, Investment Consultant, Mutual Fund Agent, Capital Market Supporting Agency, Capital Market Supporting Profession, Emiten dan Public Companies, etc.

IV. 4.3. Government As State-Owned Enterprise (Bumn) Shares Holder

Government through the Minister of BUMN is the share holder in corporations as well as public corporations, in accordance with Government Regulation Number 41/2003. The management of corporations and public corporations is regulated in Government Regulation (PP) Number 12/1998 about corporation and Government Regulation Number 13/1998 about Public Corporation. Government is the owner of public corporation's capital. In corporation, government could share the ownership with another party. In Corporation of Public companies, Government has all Dwiwarna shares of A series which have particular rights. As for common shares, government position is equal to other share holders, according to the amount of shares owned.

IV.4.4 Government As Business Entity

Controlling is the power to determine financial and operational policy of a PT in order to be able to get the benefit of subsidiary's activities. Controlling is considered to be present if the holding company has more than 50% shares on company's subsidiary, directly or indirectly (through other subsidiary). According to ACCOUNTING Standard number 38 (Revised in 2004), holding company is a company that owns one or more subsidiaries. Thus, holding company is a company. In this case, the Government of the Republic of Indonesia functions as the capital owner on public company and the share holder on corporation, so that the Government of the Republic of Indonesia can not be considered as company. According to ACCOUNTING Standard number 38 (Revised in 2004), the common control entity are individual, PT, or other entity, directly or indirectly (through one or more intermediary), control or being controlled by or under the same common control. Thus, the definition of controller party could be extended. With no limitation on other entity, then the Government of Republic of Indonesia can be considered as an entity. In this case, Cross-Ownership transaction exist when the Government of the Republic of Indonesia own 51,19% shares of PT X and 65% shares of PT Y.

Both ACCOUNTING Standard number 22 and IFRS Number 3 affirmed that even though a PT has 50% or less voting rights, control is considered to be present if one of the following conditions can be proved:

1. has more than 50% voting rights
2. has the rights to manage financial policy and operation of other PT based on the budget or agreement.
3. the authority to select and discharged most of member of other PT's committee.
4. has the capability of controlling majority votes in the committee meeting

With PT Y's redemption stock in the end of 2002, shares belong to the Government of the Republic of Indonesia on PT Y become 15%. The Government of Republic of Indonesia does not have all of the four conditions affirmed in ACCOUNTING Standard number 22 and IFRS Number 3 above. That is the reason why the Government lost the control characteristic on PT Y. From business entity point of view, then the Government should recognize the impact resulting from subsidiary's stock trading transaction conducted by State-Owned Enterprise. In this case, the Government has to recognize the net position of subsidiary's stock trading transaction (Cross-Ownership) by PT X and PT Y:

1. From PT X, loss realization resulting from Cross-Ownership transaction amounted Rp. 7.288.271 million.
2. From PT Y, profit realization resulting from Cross-Ownership transaction amounted rp. 4.499.947 million.

Profit or loss realization resulted from the Cross-Ownership transaction in 2001 to control party (Government) is minus (-) rp. 7.288.271 million added by Rp. 4.499.947 million so that the net loss for the Government as business entity amounted to Rp. 2.788.324 million. It is important to emphasize that the Government's loss position is the logical consequences of the Cross-Ownership transaction in 2001 which is triggered by the Blue Print of Government Policy on Indonesia Telecommunications from its multi function role as regulator. The loss will be compensated with the increase in Government's revenue section on the prospect of PT X and PT Y's performances after PT A became PT X's subsidiary and the acquisition of C and B by PT Y in the period of post Cross-Ownership transaction.

V.I. Conclusion

Based on the article, the conclusions are as follows:

1. Different implementation of ACCOUNTING Standard number 38 (Revised in 2004) on the Cross-Ownership transaction between PT X and PT Y result in different quality of financial statement based on qualitative characteristic of financial statement. The quality of PT Y's

financial statement which realized profit from the difference of common control entity restructuring transaction illustrates a better quality of financial statement, especially on the Income Statement.

2. Different implementation, especially on the balance realization of the difference of common control entity restructuring transaction caused by the absence of transition provision of ACCOUNTING Standard number 38 (Revised in 2004). Most of listed companies which lost common control substance made retrospective reclassification and implementation in accordance with ACCOUNTING Standard number 25/1995 and the provision of Capital Market Supervisory Agency (BAPEPAM) on the initial implementation of ACCOUNTING Standard number 38 (Revised in 2004) by public PT.
3. Until now, there are no International accounting standards and United States accounting standard which clearly regulate consolidated business transaction by common control entities into a particular standard. United States accounting standard provides the same guidelines as ACCOUNTING Standard number 38/1997 in the initial transaction, yet they prohibit realization of the difference of common control entity restructuring transaction, as has been regulated in ACCOUNTING Standard number 38 (Revised in 2004). The International accounting on the other hand does not provide specific instruction.
4. Government has various task as general/sectoral regulator, capital market and business entity regulator,. Each role has its part in Cross-Ownership transaction, as policy maker triggered Cross-Ownership transaction, tax collector of the Cross-Ownership transaction, and as the owner of the company doing the Cross-Ownership transaction. In the Cross-Ownership transaction, Government as a controlling business entity is in the position of suffering loss.

V.2. Remarks

1. Revision on the Financial Accounting standard should provide provisions on transitions. If not, standard must be supplied with guidance on certain initial implementation or guidance with reference to ACCOUNTING Standard number 25/1995. Capital Market Supervisory Agency (BAPEPAM) provision on the initial implementation of ACCOUNTING Standard number 38 (Revised in 2004) is only effective to public PT so that the non-public PT has the potential of facing the same problem as PT X and PT Y.
2. Government status as controlling entity needs to be further examined, considering the principle of Government's fairness and interdependency , that can regulate the overall aspects of all listed companies' business activity. This can create potential conflicts of interest

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