

Siddharta & Widjaja

Potential Functional Currency Trap



Historically under Indonesian GAAP, your recording (accounting) currency was required to be the same as your reporting currency.

The recording currency was, by default, Rupiah; however, if your functional currency were U.S. Dollar, then U.S. Dollar could be used as the recording and reporting currency, subject to approval by the Tax Office.

This will no longer be the case.

By 31 December 2011, you must determine your functional currency based on the criteria and factors specified in PSAK 10 (revision), which are based more on the substance of your transactions rather than their legal form; this is not optional.

Beginning 1 January 2012, PSAK 10 (revision) requires that all your foreign currency transactions be recorded using your determined functional currency and that your books and records must be maintained using your determined functional currency.

It will be problematic if your PSAK 10 (revision) determined functional currency is not either Rupiah or U.S. Dollar.

Under current government regulations only these two currencies (and use of Bahasa Indonesia or English language) are permitted for maintaining your books and records or for preparing your Indonesian tax returns.

If your determined functional currency is not Rupiah or U.S. Dollar, the only practical solution is to maintain two sets of books.

This will require you to assess whether your current accounting software includes adequate dual currency capabilities so you can meet the new GAAP requirements beginning 1 January 2012 and continue meeting the local regulatory requirements. If not, you will need to react quickly.

PSAK 10 (revision) however provides you with some financial statement presentation flexibility. You may elect to prepare them either in your functional currency or in Rupiah, but not both.

These are complex issues that we would be happy to discuss with you at your convenience.

Contact us

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