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Consolidated financial statements: Based on comparison statement of government accounting standards (PSAP) 11 with International Public Sector Accounting Standards (IPSAS) 06

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Abstract
Consolidated financial statements are financial statements which are a combination of all the financial statements of the reporting entity so that they are presented as a single entity. In Indonesia, consolidated financial statements are regulated in the Statement of Government Accounting Standards (PSAP) number 11 concerning "Consolidated Financial Statements" while in the international scope, it is known as International Public Sector Accounting Standards (IPSAS) number 6 concerning "Consolidated Financial Statements and Accounting for Controlled Entities. ” or better known as (International Public Sector Accounting Standards) is an accounting standard for types of public sector entities that has been developed by the International Public Sector Accounting Standards Board (IPSASB).

Keywords: Consolidated Financial Statements, PSAP 11, IPSAS 6

1. Introduction
Consolidation is the process of combining accounts held by a reporting entity with other reporting entities, by eliminating reciprocal accounts so that they can be presented as one consolidated reporting entity. The preparation of consolidated financial statements is an initiative to increase transparency and accountability in the management and accountability of state finances. This Consolidated Financial Statement is regulated in Statement of Government Accounting Standards (PSAP) number 11 which applies in Indonesia, while internationally, we know the term International Public Sector Accounting Standards (IPSAS) number 6 which regulates the same thing. The purpose of the author is to compare PSAP 11 and IPSAS 6 regarding Consolidated Financial Statements.

2. Literature review
2.1 PSAP 11
According to PSAP 11, Consolidation is the process of combining accounts held by a reporting entity with other reporting entities, by eliminating reciprocal accounts so that they can be presented as one consolidated reporting entity. Consolidated financial statements are financial statements which are a combination of all the financial statements of the reporting entity so that they are presented as a single entity.
Consolidated financial statements are prepared by combining reports between reporting entities and adding the financial statements of the Public Service Agency. The financial statements of accounting entities that are combined at the accounting entity level above are not consolidated financial statements, but are only consolidated financial statements between accounting entities. The financial statements of State-Owned Enterprises (BUMN) are only attached to the consolidated financial statements.

Purpose
The purpose of PSAP 11 concerning Consolidated Financial Statements is to provide references and rules in the preparation of consolidated financial statements for government units in order to present financial statements for general purposes in order to improve the quality and completeness of the said financial statements. What is meant by financial reports for general purposes are financial reports that can meet the needs and provide information for the majority of report users, including legislative institutions as stipulated in the provisions of laws and regulations? In addition, it is hoped that PSAP 11 can be a reference for the importance of preparing consolidated financial statements, which so far have not been fully implemented by reporting entities.

Scope

1. General purpose financial statements of government units designated as reporting entities are presented on a consolidated basis according to this Standard in order to reflect a single entity.
2. The consolidated financial statements of the central government as a reporting entity include the financial statements of all reporting entities, including the financial statements of public service agencies.
3. Consolidated financial reports at ministries/agencies/regional governments as reporting entities include financial statements of all accounting entities including financial statements of Public Service Agencies/Regional Public Service Agencies.
4. This Standard Statement does not regulate.
   a) Consolidated financial statements of state/regional companies;
   b) Accounting for investments in associates;
   c) Accounting for investments in joint ventures; and
   d) Combined statistical reports of the central government and local governments.

Presentation of consolidated financial statements

1. The consolidated financial statements consist of the Budget Realization Report, Changes in SAL Report, Balance Sheet, Operational Report, Changes in Equity Report, Cash Flow Statement, and Notes to Financial Statements.
2. The consolidated financial statements as referred to in paragraph 7, are presented by the reporting entity, except:
   a. Consolidated financial statements of cash flows that are only presented by entities that have a general treasury function;
   b. Consolidated financial statements of changes in excess budget balances that are only prepared and presented by the Central Government
3. The consolidated financial statements are presented for the same reporting period as the reporting entity's financial reporting period and contain comparative amounts with the previous period.
4. The Central Government submits consolidated financial reports from all state ministries/agencies to the legislature.
5. Local governments submit consolidated financial statements of all accounting entities under them to the legislature.
6. In this standard the consolidation process is followed by the elimination of reciprocal accounts. However, if the said elimination is not yet possible, then it is disclosed in the Notes to the Financial Statements.
7. Examples of reciprocal accounts include the remaining inventory money that has not been accounted for by the expense treasurer until the end of the accounting period.

Accounting entity

1. The accounting entity maintains accounting and submits financial reports in connection with the budget/goods it manages which is addressed to the reporting entity.
2. Each government unit that receives the budget or manages goods is an accounting entity that is obliged to carry out accounting, and periodically prepare financial reports according to Government Accounting Standards. The financial statements are submitted internally and in stages to a higher unit in the context of merging the financial statements by the reporting entity.
3. By determining according to the prevailing laws and regulations, a certain accounting entity which is considered to have a significant influence on the achievement of government programs can be designated as a reporting entity.

Consolidated procedure

1. The consolidation referred to in this Standard is carried out by combining and summing the accounts held by a reporting entity with other reporting entities, or held by an accounting entity with other accounting entities, by eliminating reciprocal accounts.
2. Reporting entities prepare financial statements by combining the financial statements of all accounting entities that are organizationally subordinate to them.

Effective date

1. This Statement of Government Accounting Standards (PSAP) is effective for reports on accountability for budget implementation starting from Fiscal Year 2010.
2. In the event that the reporting entity has not been able to apply this PSAP, the reporting entity can apply the Cash-Based PSAP to Accrual no later than 4 (four) years after the 2010 Fiscal Year.

2.2 IPSAS 6

According to IPSAS 6, consolidated financial statements are the financial statements of an economic entity presented as those of a single entity. In IPSAS 6, it requires all controlling entities to prepare consolidated financial statements that consolidate all controlled entities on a line basis using the line method. The standard also contains a detailed discussion of the concept of controls as they apply to the public sector and guidance for determining whether controls exist for financial reporting purposes.

Purpose

IPSAS 6 aims to determine when an entity should consolidate another entity and includes guidance for assessing controls and further includes guidance for the preparation of separate financial statements and disclosures.

Scope

1. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.
2. This Standard should also be applied in accounting for controlled entities in a controlling entity's separate financial statements.
3. Consolidated financial statements are encompassed by the term “financial statements” included in the Preface to International Public Sector Accounting Standards. Therefore, consolidated financial statements are prepared in accordance with International Public Sector Accounting Standards.
4. This Standard applies to the preparation and presentation of consolidated financial statements, and accounting for controlled entities, by all public sector entities other than Government Business Enterprises.
5. Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 Financial Reporting by Government Business Enterprises notes that IASs are relevant to all business enterprises, regardless of whether they are in the private

or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

6. This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities in the separate financial statements of the controlling entity. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities that are GBEs. In these circumstances, this Standard should be applied in consolidating GBEs into the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity's separate financial statements.
7. This Standard does not deal with:
    a. Methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on an entity combination (guidance on accounting for entity combinations can be found in International Accounting Standard IAS 22, Business Combinations);
    b. Accounting for investments in associates (see International Public Sector Accounting Standard IPSAS 7 Accounting for Investments in Associates); and
    c. Accounting for investments in joint ventures (see International Public Sector Accounting Standard IPSAS 8 Financial Reporting of Interests in Joint Ventures).

Presentation of consolidated financial statements

1. A controlling entity, other than a controlling entity mentioned in paragraph 16, should present consolidated financial statements.
2. A controlling entity that is a wholly owned controlled entity, or is virtually wholly owned, need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or, in the case of one that is virtually wholly owned, the controlling entity obtains the approval of the owners of the minority interest. Such a controlling entity should disclose the reasons why consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. The name and the principal address of its controlling entity that publishes consolidated financial statements should also be disclosed.
3. Users of the financial statements of a controlling entity are usually concerned with, and need to be informed about, the financial affairs of the economic entity as a whole. This need may be served by consolidated financial statements, which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.
4. A controlling entity that is itself wholly owned by another entity may not always present consolidated financial statements since such statements may not be required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, in the public sector many controlling entities that are either wholly owned or virtually wholly owned, represent key sectors or activities of a government and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions governments have recognized this and have legislated the financial reporting requirements of such entities.
5. In some countries, a controlling entity is also exempted from presenting consolidated financial statements if it is virtually wholly owned by another entity and the controlling entity obtains the approval of the owners of the minority interest. Virtually wholly owned is often taken to mean that the controlling entity owns 90% or more of the voting power.
6. In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the ultimate controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.

Accounting entity

1. In a controlling entity's separate financial statements, controlled entities that are included in the consolidated financial statements should be either:
    a. Accounted for using the equity method as described in IPSAS 7 or
    b. Accounted for as an investment.
2. Controlled entities that are excluded from consolidation should be accounted for as investments in the controlling entity's separate financial statements.
3. Guidance on accounting for investments can be found in international and/or national accounting standards.
4. In many countries separate financial statements are presented by a controlling entity in order to meet legal or other requirements.

a.

b. Consolidated procedure

1. In preparing consolidated financial statements, the financial statements of the controlling entity and its controlled entities are combined on a line-byline basis by adding together like items of assets, liabilities, net assets/equity, revenue and expenses.
2. Guidance on accounting for taxes payable by either the controlling entity or its controlled entities on distribution to the controlling entity of the surpluses retained in controlled entities can be found in International Accounting Standard IAS 12, Income Taxes.
3. Balances and transactions between entities within the economic entity and the resulting unrealized gains should be eliminated in full. Unrealized losses resulting from transactions within the economic entity should also be eliminated unless cost cannot be recovered.
4. Balances and transactions between entities within the economic entity, including sales, transfers and revenues recognized consequent to an appropriation or other budgetary authority, expenses and dividends, are

eliminated in full. Unrealized surpluses resulting from transactions within the economic entity that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealized deficits resulting from transactions within the economic entity that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. Guidance on accounting for timing differences that arise from the elimination of unrealized surpluses and deficits resulting from transactions within the economic entity, can be found in IAS 12.

5. When the financial statements used in the consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the controlling entity's financial statements. In any case the difference between reporting dates should be no more than three months.
6. The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the controlled entity often prepares, for consolidation purposes, statements as at the same date as the economic entity. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference is no greater than three months. The consistency principle dictates that the length of the reporting periods and any difference in the reporting dates should be the same from period to period.
7. Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies (other than the bases of accounting) in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.
8. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.
9. The net surplus or deficit of a controlled entity is included in the consolidated financial statements as from the date on which control becomes effective. The surplus or deficit from operating activities of a controlled entity disposed of is included in the consolidated statement of financial performance until the date of disposal, which is the date on which the controlling entity ceases to have control of the controlled entity. The difference between the proceeds from the disposal of the controlled entity and the carrying amount of its assets less liabilities as of the date of disposal is recognized in the consolidated statement of financial performance as the net surplus or deficit on the disposal of the controlled entity. In order to ensure the comparability of the financial statements from one accounting period to the next,
10. From the date an entity ceases to fall within the definition of a controlled entity and does not become an associate as defined in IPSAS 7, or a jointly controlled entity as defined in IPSAS 8, it should be accounted for as an investment. IAS 39 provides guidance on accounting for investments.
11. The carrying amount of the investment at the date that it ceases to be a controlled entity is regarded as a cost thereafter.
12. Minority interests should be presented in the consolidated statement of financial position separately from liabilities and the controlling entity's net assets/equity. Minority interests in the net surplus or deficit of the economic entity should also be separately presented.
13. The losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in the net assets/equity of the controlled entity. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the controlled entity subsequently reports surpluses, the majority interest is allocated all such surpluses until the minority's share of losses previously absorbed by the majority has been recovered.
14. If a controlled entity has outstanding cumulative preferred shares which are held outside the economic entity, the controlling entity computes its share of surpluses and losses after adjusting for the controlled entity's preferred dividends, whether or not dividends have been declared.

Effective date

1. This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 1 July 2001. Earlier application is encouraged.
2. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

3. Research methods

This type of research is using library research. Library research is research carried out using literature, whether in the form of books, notes, or reports of previous research results.

Data Collection Technique

Data collection techniques used in this study using existing literature techniques means "library research carried out by reading, analyzing and recording various literatures or reading material in accordance with the subject matter, then filtered and set forth in a theoretical framework".

4. Research results and discussion

Referring to the literature review above, the results of the discussion regarding the comparison of PSAP 11 and IPSAS 6 related to the Consolidated Financial Statements include:

4.1 PSAP 11

PSAP 11 does not regulate:

1. Consolidated financial statements of state/regional companies;
2. Accounting for investments in associates;
3. Accounting for investments in joint ventures; and
4. Combined statistical reports of the central government and local governments.

The consolidated financial statements consist of the Budget Realization Report, Changes in SAL Report, Balance Sheet, Operational Report, Changes in Equity Report, Cash Flow

Statement, and Notes to Financial Statements.

The consolidated financial statements as referred to in paragraph 7, are presented by the reporting entity, except:

1. Consolidated financial statements of cash flows that are only presented by entities that have a general treasury function;
2. Consolidated financial statements of changes in excess budget balance which are only prepared and presented by the Central Government.
3. Consolidated financial statements are presented for the same reporting period as the reporting entity's financial reporting period and contain comparative amounts with the previous period

Consolidation Procedure

The consolidation referred to in this Standard is carried out by combining and summing the accounts held by a reporting entity with other reporting entities, or held by an accounting entity with other accounting entities, by eliminating reciprocal accounts. Reporting entities prepare financial statements by combining the financial statements of all accounting entities that are organizationally subordinate to them.

Disclosure

In the Notes to the Financial Statements it is necessary to disclose the names of the consolidated or combined entities along with the status of each, whether it is a reporting entity or an accounting entity. In the event that the consolidation is not followed by the elimination of reciprocal accounts as referred to in paragraph 12, it is necessary to disclose the names and amounts of the reciprocal account balances, and also mention the reasons for the eliminations not being carried out.

4.2 IPSAS 6

In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and the entity controlled by the line by adding together such items as assets, liabilities, net assets/equity, revenues and expenses. In order for the consolidated financial statements to present financial information about an economic entity as a single entity, the following steps are then taken:

a. The carrying amount of the controlling entity's investments in each controlled entity and the controlling entity's portion of the net assets/equity of each controlled entity is eliminated (relevant international or national accounting standards dealing with business combinations provide guidance on the treatment of any goodwill generated);
b. Minority interest in the consolidated surplus or deficit controlled by the entity for the reporting period is identified; and
c. The minority interest in the consolidated net assets/equity controlled entity is identified separately from the controlling entity's net assets/equity therein. Minority interests in the asset/equity net consist of: (i) Their number of minorities at the date of the original combination (relevant international or national accounting standards dealing with business combinations provide guidance for calculating this amount); and (ii) a minority share of changes in net assets/equity since the date of the combination.

5. Conclusion

In the preparation of the Consolidated Financial Statements, the government sector and the private sector are certainly different. In the government sector, it is regulated in PSAP 11 where these rules apply and are used by Indonesia. Likewise internationally, we recognize the existence of IPSAS 6 which regulates the same thing, namely about consolidation. As for the things that appear in terms of differences between PSAP 11 and IPSAS 6 are the things set out in the statement, the presentation, procedures and consolidated disclosures.

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