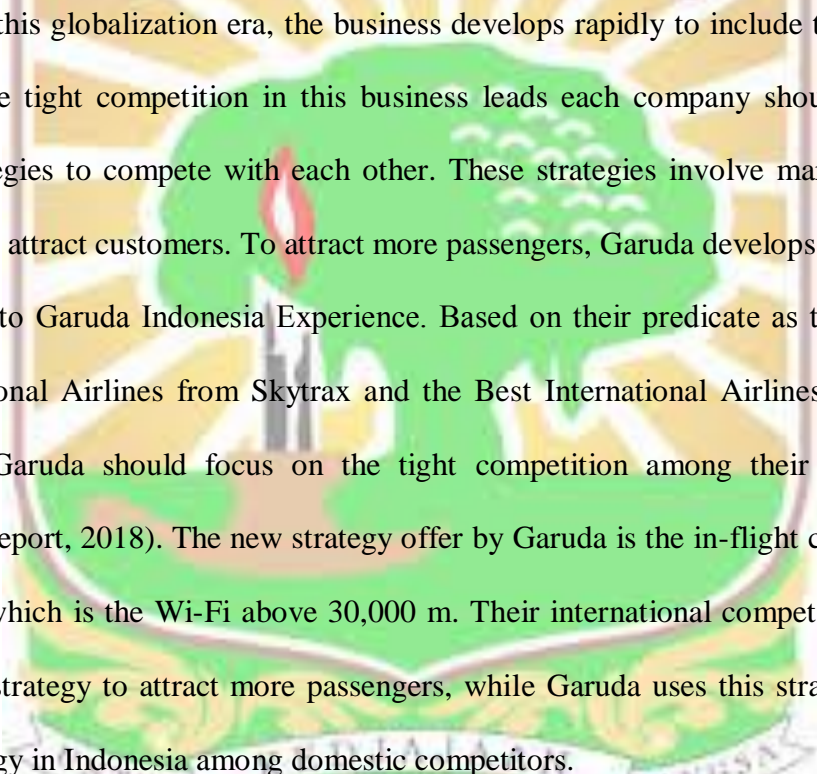


CHAPTER I

INTRODUCTION

1.1 Background

The background of the text features a large, semi-transparent watermark of the Universitas Andalas logo. The logo is a shield-shaped emblem with a green tree in the center, a red flame-like shape, and a banner at the top that reads "UNIVERSITAS ANDALAS". At the bottom of the shield, there is a banner with the motto "BANGSA BERTUKU".

In this globalization era, the business develops rapidly to include the aviation sector. The tight competition in this business leads each company should develop their strategies to compete with each other. These strategies involve marketing and services to attract customers. To attract more passengers, Garuda develops its services concept into Garuda Indonesia Experience. Based on their predicate as the World's Best Regional Airlines from Skytrax and the Best International Airlines from Roy Morgan, Garuda should focus on the tight competition among their competitor (Annual Report, 2018). The new strategy offer by Garuda is the in-flight connectivity services, which is the Wi-Fi above 30,000 m. Their international competitor already used this strategy to attract more passengers, while Garuda uses this strategy as the first strategy in Indonesia among domestic competitors.

One of Garuda's strategies is to fulfill the absence of in-flight connectivity, which is Digital Airlines. To compete with other low cost carries aviation, Citilink as the Garuda subsidiary provides in-flight connectivity services. Beside of Citilink as the primary, Garuda also provides their aircraft for the installation of the in-flight connectivity services. The passenger could use Wi-Fi services in their flight using

services that Garuda provides. Then, to implement their strategies, Garuda found Mahata Aero Technology to be their partner in this strategy. Mahata will provide the Wi-Fi onboard services installation and maintenance. This contract may profitable for Garuda because of the low cost that Garuda spends for the Wi-Fi installation. Mahata and Garuda accept to be a partner with each other with the contract signed by both of them. Garuda chooses Mahata as their partner for this contract with several considerations, such as (1) Company deserves to be a cooperation partner because it does not need to incur investment costs and get value-added service improvements to customers with the presence of non-paid in-flight connectivity. (2) Mahata is a startup company that has a cooperation contract with Lufthansa System, Lufthansa Technique, Inmarsat, Aeria Interactive, Ai Motus Ltd, CBN, and Qandeo Asia Consulting. (3) These companies are international companies that have a good KYC and DD process to decide on a partnership. (4) Mahata is supported by the parent company Global Mahata Group with a total business value of USD640.5 million. (5) Mahata is the only partner that offers a different concept to zero investment, zero cost and revenue sharing (Summary of Public Expose Insidentil 2019)

In that contract, it is written that the period of this agreement for 15 years. Also written that Garuda Group will receive additional revenue as USD241.9 million as the compensation right for the connectivity services installation and in-flight entertainment maintenance. The advantages of this contract to Garuda that, Mahata offers zero investment concept and revenue sharing for both of them. Revenue sharing collects from the advertising, each of the passengers that clicked the

advertising in Mahata Wi-Fi will give the revenue to Mahata and Garuda directly. This contract already entered into their 4th amendment and still need improvement in the future.

Financial statements are briefly interpreted as a picture of the financial condition of a company that is real and in fact. Financial statements are reports that record and summarize all financial transactions carried out in a business in a certain period. Financial statements are usually made by a special accountant of the company or the financial department in the company. In making financial reports, it is necessary to pay attention to meet the standards specified in the Financial Accounting Standards. Indonesia adopts Standar Akuntansi Keuangan (SAK) in general will converge with the International Financial Reporting Standards (IFRS) effective January 1, 2014.

Then, Garuda management recorded its 2018 financial profit regarding the activities in 2018. This made Garuda Indonesia as one of the state-owned enterprises in aviation activities has trouble with revenue recognition. In the third quarter, Garuda still recorded a loss in its quarterly financial statement. Mahata contract that recorded by Garuda as USD 241.9 million directly recognized as additional revenue by Garuda in that year. Ended with Garuda recorded their net income in 2018 financial reporting as 5 million USD. Garuda directly records all of the revenue with Mahata contract in 2018, while the fact, Garuda did not receive any services from Mahata until the end of 2018.

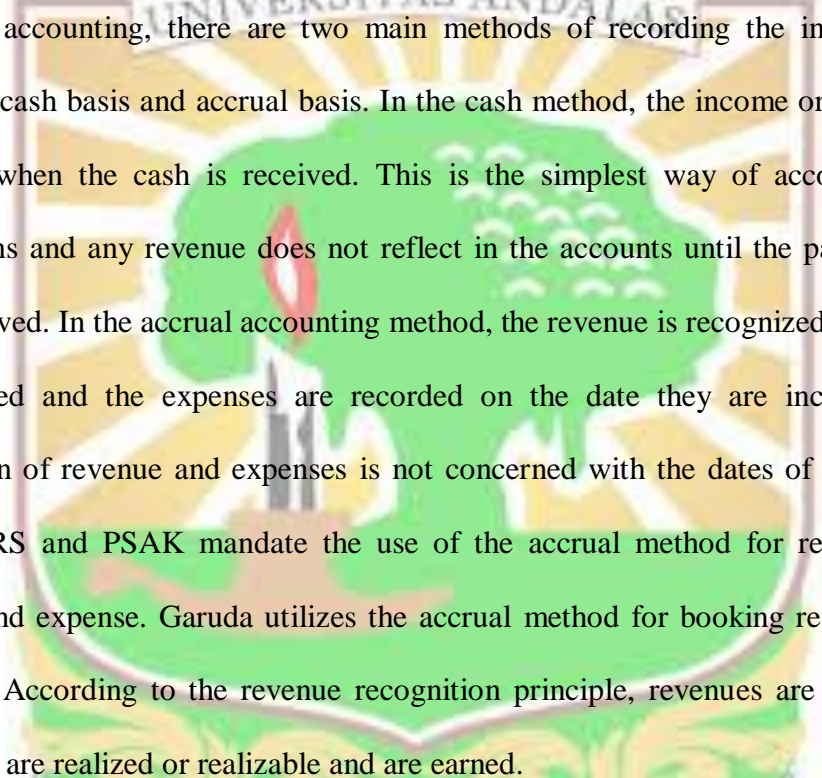
This problem is going public when two of Garuda's board of commissioners, Chairal Tanjung and Dony Oskaria, refuse to sign the 2018 audited financial reporting (Katadata, 2019). This case is a serious case while these two commissioners rejected the financial statement for 2018. While both of them rejected this financial reporting, it might be a signal for the other parties that related to the Garuda. This signal means that they should aware with Garuda condition in 2018. They said that the 2018 audited financial statement is not following PSAK. Chairal and Dony also mentioned that this financial statement contradicting PSAK 23 paragraphs 28 and 29. In paragraph 28, the revenue from the use of company assets of the third parties which raise interest, royalty, and dividend should be accrued as of the future economic benefit from the transaction. While, in paragraph 29 mentioned that, the royalty must be accrued appropriate with the substance of the contract. In deep, Chairal and Dony explain the Mahata contract such as the contract made on October 31st, 2018 and until the end of 2018, there is no payment made by Mahata. In the contract, there is no clear term of payment. Also, Garuda has no guarantee of Mahata related to the contract payment. The last in Mahata contract is that Mahata only gives their compensation payment commitment with the last statement about Mahata will pay under their financial condition. Another fact comes from Mahata that, Mahata only has 10 billion IDR because they are a new company, and this fact may create another problem.

This issue arrived at Indonesia Audit Board (BPK), Ministry of Finance, and Financial Services Authority (OJK). OJK asks Indonesia Stock Exchange (IDX) to

analyze Garuda's financial reporting. Also, the Ministry of Finance calls the Public Accounting Firms that audited Garuda Indonesia, BDO International, to explain about Garuda's financial reporting. Public accounting firm Tanubrata Sutanto Fahmi Bambang and colleagues, the auditors for PT Garuda Indonesia (Persero) Tbk in 2018, claim the recognition of revenue from the cooperation agreement of PT Mahata Aero Technology has been by applicable regulations. The auditor explained that his party was studying accounting treatment in an illustrative example Pernyataan Standar Akuntansi Keuangan (PSAK) Number 23 paragraph 20. At that point, the fees and royalties paid for the use of entity assets such as trademarks, patents, software, music copyrights, records master, and film are normally recognized per the substance of the agreement. In practice, this can be used as a straight-line basis during the agreement period (Tempo, 2019). For example, when the licensee has the right to uses certain technology for a certain period. Revenues from compensation fees for the right to install connectivity services and management rights to in-flight entertainment services are non-refundable and cannot be canceled so that the substance is the sale of rights that are recognized when the agreement is signed, at the same time. Based on the finding from the Ministry of Finance, they indicate that Garuda Indonesia's financial reporting not according to standards. OJK also finds that the Garuda and Mahata contract is the rent revenue. So, based on the OJK and Ministry of Finance findings, Garuda should restate their 2018 financial reporting and present the real condition of Garuda's financial condition. Beside the restate of financial reporting, Garuda should pay the penalty to Garuda, Garuda Board of Directors, and Board of Commissioner then the BDO International public accounting firm.

In another side, align with PSAK 23, Garuda stated that, in the basic principle of accounting, the income must indeed be recorded in profit and loss, when the funds or cash have not been received it will automatically be recorded as a receivable, not only Mahata transaction but for all income transactions if it has been recorded at profit or loss, but the cash has not been received will be recorded as a receivable. Following PSAK 23, income from the sale of services is recognized if all of the following conditions are met: (1) The amount of income can be measured reliably; (2) Most likely the economic benefits associated with the transaction flow to the entity; (3) The degree of completion of a transaction at the end of the reporting period can be measured reliably; (4) Costs incurred for the transaction and costs for completing the transaction can be measured reliably. Therefore, this income can be booked with the following considerations: (1) Compensation for the Right to Install Connectivity Service Equipment and Management Rights for In-Flight Entertainment Services: USD241.9 million for Garuda, Citilink and Sriwijaya aircraft. (2) Garuda Indonesia Group has surrendered the right to install connectivity service equipment and management rights for In-Flight Entertainment when the agreement was signed, the Company no longer continues to manage the rights to install connectivity services and entertainment management in flight, so that it no longer has any obligation on this transaction. (3) Management believes that receivables arising from this transaction will flow to the Garuda Indonesia Group with consideration of (1) Mahata is a startup that has a cooperation contract with Lufthansa System, Lufthansa Technique and Inmarsat (2) Mahata is supported by the parent company Global Mahata Group with a total business value of USD640.5 million (3) Mahata has

approached several investors, including with Well Vintage Dubai, which provides funding to Mahata (4) The Company, as a public company, consulted this transaction with OJK, and it was decided that this transaction requires disclosure of information under Bapepam Dan Lk No.Ix.E.2 regulations regarding Material Transactions and Changes in Main Business Activities.



In accounting, there are two main methods of recording the incomes and expenses: cash basis and accrual basis. In the cash method, the income or revenue is recorded when the cash is received. This is the simplest way of accounting for transactions and any revenue does not reflect in the accounts until the payment has been received. In the accrual accounting method, the revenue is recognized on the day it is earned and the expenses are recorded on the date they are incurred. The recognition of revenue and expenses is not concerned with the dates of actual cash flows. IFRS and PSAK mandate the use of the accrual method for recording all revenue and expense. Garuda utilizes the accrual method for booking revenues and expenses. According to the revenue recognition principle, revenues are recognized when they are realized or realizable and are earned.

In the accounting term, in Indonesia, the International Accounting Standard (IAS) is known as Pernyataan Standar Akuntansi Keuangan (PSAK). PSAK is the adoption of IAS and IFRS which adjusting to Indonesian condition. PSAK 72 is the new PSAK adopted from PSAK 72 about a contract with a customer. This PSAK 72 aims to provide a comprehensive revenue recognition model for all contracts with customers to increase the comparability in industries, across industries, and capital

markets (PWC, 2017). Along with that, this PSAK uses effective after January 1st, 2020. Before PSAK 72 is adopted, IAI uses PSAK 23 to record income recognition from contracts with customers except for construction companies. The difference between PSAK 23 and PSAK 72 that PSAK 23 includes an explanation of sales, services, royalties, dividends, and interest and how to recognize until presentation it. PSAK 72 is a rule that completely governs how to recognize contracts with customers, which have 5 stages that are conditions for a transaction. PSAK 72 distinguishes itself by the application of a five-step model, used to analyze transactions and to determine how the revenues are to be recognized, relate both to the period when they derive, and to their value, which is: Step 1 - Identify the contract(s) with a customer; Step 2 - Identify the performance obligations in the contract; Step 3 - Determine the transaction price; Step 4 - Allocate the transaction price to the performance obligations in the contract; Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation

This thesis discusses the implementation of PSAK 72 to prevent fraud in revenue recognition. This PSAK that effective on January 1st, 2020 may not prevent the fraud in Garuda. But, PSAK expect may decrease the amount of fraudulent financial reporting in revenue recognition in the future. Then, this thesis will focus on the gap in Garuda financial reporting and PSAK 72 implementation.

1.2 Problem Definition

From the background above, the problem of this study is: how is the PSAK 72 may prevent the Garuda Indonesia case in revenue recognition?

1.3 Research Objective

In accordance with the problem above, this thesis aims to find the gap that PSAK 72 may fulfill in Garuda revenue recognition case.

1.4 Research Benefit

This research is expected to:

1. Give knowledge about the PSAK 72 implementation in Garuda Indonesia revenue recognition
2. Give information related to the implementation of PSAK 72 in fraud prevention about revenue recognition

1.5 Writing Systematic

Writing this research will divided into 5 chapters, they will be prepared as following:

Chapter I, Introduction, discusses about general description that become research basic. It consists of background, problem definition, research objective, research benefit, and writing systematic.

Chapter II, Literature Review, discusses about theory that has relation with research problem. This is helpful as think base to solve the problem.

Chapter III, Research Methodology, provides overview of plan in doing the research. Along with theories from literature review, this chapter will encompass the research. This chapter includes type of research, research limitation, types and source of data, and analysis method.

Chapter IV, Analysis and Discussion, contains data processing result based on research methodology.

The last chapter, Chapter V, Conclusion and Suggestion, contains conclusion about research result. It also contains suggestion for the next research.

