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IMPLICATIONS OF PSAK 72 IMPLEMENTATION AT PT KLM AN AGRICULTURAL TECHNOLOGY-BASED START-UP

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ABSTRACT

Revenue plays a primary role in measuring a company's financial performance, thus it needs to be accurately measured in accordance with revenue recognition principles to reflect the actual income of the company. The implication of revenue recognition that is not in accordance with the contract can result in inaccuracies in the income statement. Misassessment of revenue, whether overestimated or underestimated, holds the potential to disrupt the reliability of financial information and negatively impact decision-making. This research focuses on assessing the implementation of PSAK 72 at PT KLM, an agricultural start-up that embraces agricultural technology (agritech). Qualitative descriptive method is used to depict the data gathered through interviews and observation using PSAK 72 framework as a guideline. The research reveals that revenue recognition at PT KLM aligns with the PSAK 72 guideline, even though PT KLM faced some challenges in its implementation. These findings demonstrate the company's commitment to compliance with relevant accounting standards and accurate revenue recognition. This has positive implications for the quality of financial information generated by the company.

***Keywords**: Revenue Recognition, PSAK 72, Agritech, Qualitative Descriptive*

1. INTRODUCTION

In a broad context, a start-up is commonly understood as an early-stage company established by entrepreneurs, aiming to introduce innovation or fresh solutions to the market. Presently, there's an observable enthusiasm among individuals in establishing their own companies, resulting in a growing number of start-ups. It's crucial to acknowledge that revenue holds a pivotal role in gauging a company's financial performance, necessitating a careful and accurate measurement in line with the principles of revenue recognition to truthfully portray a company's actual earnings. Inaccuracies in revenue recognition, incongruent with the contract, could lead to discrepancies in the profit and loss statement. Such inaccuracies, whether they present revenue as being too high or too low, could jeopardize the reliability of the financial information and adversely affect decision-making.

The significance of revenue, especially in the context of start-ups, cannot be understated as it plays a vital role in various aspects such as resource allocation, pricing strategies, budget planning, and stakeholder confidence. Hence, the recognition and measurement of revenue need to be meticulously managed from various perspective. In the realm of start-ups, the increasing number of these businesses, especially in sectors like e-commerce, signifies a notable trend. Despite the growth, there are start-ups that face challenges, often resulting in losses, and consequently, some fail to secure necessary funding, leading to closure.

The choice of focusing on an agritech start-up, particularly PT KLM, in this research is inspired by Indonesia's rich legacy as an agrarian country with a long history in agriculture.

This research aims to set the stage for a deeper analysis of revenue recognition in PT KLM, an agritech start-up, within the framework of PSAK 72, and to explore the implications and challenges therein.

Accounting

Accounting is a financial information system, aimed to collect and communicate significant financial data to stakeholders [6]. The goal of accounting is ultimately to report relevant financial information. Relevant information is closely related to the decision-making process of the report's recipient.

Financial Accounting

The term financial accounting specifically refers to a type of accounting that aims to create relevant financial information from an entity [6]. This information is important for stakeholders who use it in making economic decisions and understanding the financial condition of the company. The credibility of these financial reports depends on their accuracy, clarity, and ease of understanding, all of which must be compiled in accordance with applicable financial accounting standards.

Revenue and Revenue Stream

The primary objective of establishing an entity is to achieve profitability and ensure the company's sustainability. For both long-standing companies and start-ups, revenue plays a significant role because profit is generated from this revenue. Revenue is the income that arises from the normal operating activities of an entity such as sales, service income, interest, dividends, royalties, or rent [7]. Revenue is the amount of money generated by a company before costs/expenses are deducted [5].

To create credible financial reports, companies are required to record revenue and expenses in accordance with the financial accounting standards. This credibility is often compromised by scandals arising from company practices that aim to maximize reported revenue and minimize expenses to improve apparent performance. Trustworthy financial reports are crucial for users to make decisions that could impact the company's sustainability.

Revenue Recognition According to PSAK 72

PSAK 72, which adopts IFRS 15 "Revenue from Contracts with Customers," is the applicable standard for accounting for revenue related to contracts with customers. This standard aims to provide principles for entities in reporting key information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers [3]. Revenue, as explained in PSAK 72, refers to income generated during an entity's normal activities, recognized when there is a transfer of goods or services to a customer, in an amount that reflects the consideration to which the entity expects to be entitled. Entities take into account the terms of the contract and all relevant facts and circumstances in five steps according to PSAK 72, namely:

a) Identifying contracts with customers;
b) Identifying performance obligations in the contract;
c) Determining the transaction price;
d) Allocating the transaction price to the performance obligations in the contract; and
e) Recognizing revenue when (or as) the entity satisfies a performance obligation.

2. RESEARCH METHOD

This research utilizes a qualitative descriptive research method. Qualitative descriptive research is a method used to gain knowledge regarding the research subject at a specific point in time [11]. Descriptive research aims to collect data related to the research subject and its behavior over a certain period.

This research was conducted at PT KLM, an agricultural technology-based start-up located at South Jakarta City, DKI Jakarta, Indonesia. The research was conducted from September 2023 until completion. The type of data used is qualitative data. The data source in this research uses primary data. Primary data is data collected directly by the researcher themselves [11]. The interview technique is a method of obtaining information conducted by directly interacting and requesting information or explanations from the first party who is considered capable of providing information or answers relevant to the questions posed [11]. The researcher conducted interviews with informants to get a general picture of revenue recognition at PT KLM. Observation methods conduct systematic direct observations and recordings of the phenomena or symptoms being investigated [11]. For instance, the researcher assumes the role of an accountant and actively observes the entire process related to recording revenue accounts in the company.

The qualitative descriptive analysis method is used to describe and analyze data collected through interviews and observations. The framework of PSAK 72 serves as a guideline for organizing and interpreting data. In qualitative research, researchers rely on their research findings through observations supported by interviews and documentation collected in the field, with observation instruments, interviews, and documentation being the most crucial tools used [11].

The data analysis process involves the following steps:

a) Data Collection: This is an ongoing process throughout the study, using a set of prepared instruments to obtain data information through observation, interviews, and documentation [11].
b) Data Reduction: This process involves selecting, focusing, simplifying, abstracting, and transforming raw data that appears in field note writing [11].
c) Drawing Conclusions or Verification: This is an analytical activity where, at the beginning of data collection, an analyst starts to decide whether something is meaningful, or does not have regularity, patterns, explanations, possible configurations, causal relationships, and propositions [11].

3. RESULTS AND DISCUSSIONS

PT KLM Service Products

Types of service offered by PT KLM are as follow:

a) Field implementation services consisting of mapping and data verification against farmers as well as training to support clients in independently conducting supply chain mapping, referred to as Project Implementation.
b) Programming services and updates for KLM web and mobile applications, referred to as Software Development.
c) Software as a Service, where the applications include, among others, KLM, FX, and FG.
d) Monitoring and evaluation services, referred to as Monitoring and Evaluation.

Revenue Recognition at PT KLM

PT KLM is a service company operating in the field of agricultural technology. PT KLM has contracts with clients as part of its operational and non-operational activities. The revenue from these contracts is recognized by PT KLM in accordance with the terms agreed upon in the cooperation contracts with clients. This revenue is recognized using the accrual basis method, meaning that revenue is recorded when a transaction occurs, even though the cash has not been received yet. One of PT KLM's clients, whose contract contains a complete set of services offered by PT KLM, is PT RST, a natural rubber company. PT KLM implements the following steps to recognize revenue:

a) PT KLM identifies a written agreement made between PT KLM and PT RST, referred to as a service agreement. This service agreement outlines the rights and obligations agreed upon by both parties.
b) PT KLM then identifies the jobs within the service agreement. Based on the contents of the service agreement, there are several types of service jobs agreed upon by PT KLM and PT RST. This job involves Project Implementation (PI), Software Development (SD), Software as a Service (SaaS), and Monitoring and Evaluation (ME).
c) PT KLM sets an appropriate price for each job in the service agreement. This price determination considers various factors, including costs, complexity, and the value of the services to be provided.
d) PT KLM then allocates prices to the work in the service agreement. The way prices are allocated to work depends on the type of work contained in the service agreement.
    1) Project Implementation (PI) Services: The type of PI service is based on deliverables or results that must be achieved. The initial transaction price could be an estimate based on the budget approved by both parties. However, the transaction price can change along with work progress because this project might experience obstacles or changes. In this case, revenue is recognized according to the progress that has been made in achieving the deliverables. This ensures that revenue recognition reflects the actual value of the work that has been completed.
    2) Software Development (SD), Software as a Service (SaaS), and Monitoring and Evaluation (ME) Services: The types of SD, SaaS, and ME services, on the other hand, might have a fixed transaction price or fixed cost. In this case, the transaction price will not change throughout the contract. Therefore, the revenue from these obligations is recognized in accordance with the contract period and is not affected by changes in progress or obstacles.

There are two accounts related to revenue used by PT KLM, namely Prepayment Income (revenue received in advance) and Accrued Income (revenue yet to be received). Prepayment Income is related to billing clients in advance before the work obligation is carried out. The upfront billing system allows PT KLM to receive funds from clients before work begins or is completed. This helps PT KLM manage its working capital, ensuring that operational costs can be met, and allows the company to better plan further investment or development.

For SD services, work starts first and lasts for 3-4 months. During this period, PT KLM bills clients in advance, recording it as Prepayment Income. After the completion of SD work, in the 4th or 5th month, PT KLM again bills in advance for SaaS and ME services. All three, SD, SaaS, and ME, are recognized as prepayment income, but with different work timelines. When the obligations listed in the contract have been fulfilled, accountants will amortize the Prepayment Income account to the revenue account. This aims to recognize income proportionally with the work progress that has been made and in accordance with contract provisions.

Meanwhile, Accrued Income occurs when the obligation has been completed by PT KLM, but the billing process to clients cannot yet be carried out by the accounts receivable team. This happens because billing is still waiting for the deliverable report for the respective month from the Project team responsible for the project in the field. PT KLM records Accrued Income based on provisions in the contract. After the deliverable report is available in the following month, the accountant will adjust the amount of revenue based on the contents of the report with correction journals. After that, the accounts receivable team can also carry out the billing process to clients in accordance with the existing deliverable report.

Accrued Income reflects PT KLM's commitment to providing the best services while ensuring fairness and accuracy in financial recording. Even though there is a potential delay in receiving payments, the company still prioritizes client satisfaction by ensuring the work is completed with the best quality before billing. Therefore, even though Accrued Income can pose challenges in short-term financial management, its long-term benefits in strengthening relationships with clients are more significant.

Analysis of PT KLM's Revenue Recognition with the Implementation of PSAK 72

Revenue, as explained in PSAK 72, refers to income generated during the normal activities of an entity. The revenue recognition method in PSAK 72 is on an accrual basis, where revenue is recorded when a transaction occurs. Entities recognize revenue to depict the transfer of goods or services promised to customers in an amount that reflects the entity's rights. There are five steps of revenue recognition in PSAK 72, namely: identifying contracts with customers, identifying performance obligations, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) the entity has completed the performance obligations.

Upon further analysis of revenue recognition at PT KLM with the application of PSAK 72, it is identified that:

PT KLM has applied the accrual basis, however, PT KLM still faces challenges in accurately recognizing revenue in accordance with PSAK 72. Therefore, initially, it is necessary to map the revenue to be recognized based on contracts before recognizing revenue, and PT KLM needs to ensure the timeliness of the delivery of the deliverable report by the project team.

For example, in PI services, revenue is recognized based on work progress reflected in the deliverable report compiled by the project team. The deliverable report is a report that contains the percentage of work completion that occurs in the field. However, if the accountant has not yet received the deliverable report from the project team, they will face difficulty in recognizing the revenue. Therefore, the accountant needs to strategize the mapping of estimated revenue based on contracts to have a basis for recognizing revenue before receiving the deliverable report.

For instance, accountant performs a simulation mapping for revenue recognition based on accrued income with a service value of PI on the contract amounting to Rp1,000,000,000.00; the work spans from August 2023 to December 2023, with a monthly progress target of 20%.

Table 4.1. Simulation of PI service revenue estimation mapping

Service	Contract Value (in million Rupiah)	*Aug* 23 (20%)	*Sep* 23 (20%)	*Oct* 23 (20%)	*Nov* 23 (20%)	*Dec* 23 (20%)
PI	1.000	200	200	200	200	200

Based on the mapping in table 4.1, if the accountant is to recognize and record revenue in August 2023, there are two situations that need to be considered and the steps that can be taken in each situation are:

a. Before the deliverable report is received.
   1) Recognize revenue in August based on the contract for Rp200,000,000.00.
   2) Record the estimated revenue for August 2023 based on the contract.
      - Journal for August 2023:

      Debit: Accrued Income Rp200,000,000.00
      Credit: PI Service Revenue Rp200,000,000.00
b. After the deliverable report is received.
   1) If after receiving the deliverable report, it turns out the work progress is only 15% or Rp150,000,000.00; then a correction journal entry should be made as follows:
      - Debit: PI Service Revenue Rp50,000,000.00
      - Credit: Accrued Income Rp50,000,000.00
   2) Conversely, if after receiving the deliverable report, it turns out the work progress is 25% or Rp250,000,000.00; then the accountant has underrecognized revenue, thus a correction journal entry should be made as follows:
      - Debit: Accrued Income Rp50,000,000.00
      - Credit: PI Service Revenue IDR 50,000,000.00

With this journal correction, PT KLM's revenue is adjusted to reflect the actual work progress as shown in the deliverable report.

The similar process will be repeated every month in accordance with the receipt of the deliverable report and its comparison with the revenue that has been mapped and recognized according to the contract schedule. In this case, the deliverable report plays a crucial role in the accuracy of the company's revenue recognition. Delays in the submission of the deliverable report can result in inaccuracies in revenue recognition, which directly impacts the cash flow and financial performance of the company. Moreover, such delays can affect coordination with the accounts receivable team in billing, potentially causing obstacles in cash inflows. Therefore, timeliness and accuracy in the submission of deliverable reports are essential to maintain the financial health of the company and to minimize the risk of bad debts.

For SD services, SaaS, and ME, PT KLM has also applied an accrual basis. Mapping revenue based on the contract is also essential. For example, PT KLM has a contract worth IDR 330,000,000.00 that includes SD services, SaaS, and ME for five months from August to December 2023.

Table 4.2. Simulation of SD service, SaaS, and ME revenue estimation mapping

Service	Contract Value (in million Rupiah)	*Aug* 23	*Sep* 23	*Oct* 23	*Nov* 23	*Dec* 23
SD	300	100	100	100		
SaaS	20				10	10
ME	10				10	

Based on the revenue estimation mapping simulation presented in table 4.2, the revenue recognition period for SD services is from August to October 2023. This means the accountant already knows that during these three months, revenue can be recognized each month. If the accountant is to recognize and record revenue from August to October 2023, there are two situations that need to be considered and the steps that can be taken in each situation are:

a. When the accounts receivable team conducts billing

The accounts receivable team will bill according to the transaction price and contract period. When issuing an invoice, the accountant will record it with the following journal entry:
- Debit: Accounts Receivable IDR 300,000,000.00 (period August – October 2023)
- Credit: Prepayment Income IDR 300,000,000.00

b. When entering the period according to billing
Each month during the period from August to October 2023, the accountant will amortize the income by recording the amount of recognized revenue with the following journal entry:
- Debit: Prepayment Income IDR 100,000,000.00
- Credit: SD Service Revenue IDR 100,000,000.00

According to PSAK 72 on revenue from contracts with customers, revenue recognition must be carried out when control over the promised goods or services has been transferred to the customer, in line with the amount of consideration the company expects to receive. For SD services, SaaS, and ME based on prepayment income, this means revenue is recognized when the service or work is completed according to the contract, and the minutes of the meeting or relevant supporting documentation have been submitted. At the end of October 2023, after all SD services have been provided, PT KLM must have a report indicating that all related SD work is complete according to the contract schedule. This report is important because it ensures that both parties, PT KLM and the client, agree that the services have been provided as agreed in the contract. Unlike PI services which require a monthly deliverable report because of their progressive nature, for SD services, revenue is fixed according to what has been agreed in the contract. In the context of SaaS and ME as well, accuracy in reporting the period of service or use is very important, because it determines when revenue is recognized. Any discrepancies can result in a difference between the revenue that should be recognized and that which is actually recorded.

4. CONCLUSIONS AND SUGGESTIONS

From the above discussion, it can be concluded that:

a) PT KLM applies the accrual basis in recognizing its income, but PT KLM still encounters obstacles in recognizing revenue in accordance with the prevailing accounting standards in Indonesia, namely Financial Accounting Standards (SAK) 72: Revenue from Contracts with Customers. The steps taken already include identifying contracts, performance obligations, transaction prices, allocating transaction prices to the obligations, and recognizing revenue when obligations are fulfilled.
b) PT KLM faces challenges in revenue recognition, particularly related to delays in the submission of deliverable reports from the Project team in the field. This can affect the accuracy of revenue recognition.
c) Accrued income is used by PT KLM to record the actual revenue received from ongoing projects, but payment from clients has not yet been received. The use of the accrued income account allows the company to track obligations or income that is still due from clients.

Recommendations that the researcher can convey to the company's management, project team, accounting team, and accounts receivable team include:

a) Mapping Revenue Estimates Based on Contracts: Mapping revenue estimates based on contracts can help accountants to recognize revenue in advance (Accrued Income) based on the contract before receiving the deliverable report. Mapping revenue estimates can also facilitate the accounts receivable team in issuing billing-based invoices.

b) Monitoring Deliverable Report Management: Management and accountants need to improve coordination with the project team in the field to ensure timely delivery of deliverable reports. For example, PT KLM can include in the service agreement with clients a cut-off date for completing deliverable reports, such as on the 30th or 31st of each month for the month in which revenue is being recognized. Therefore, if it is necessary to recognize revenue for work in October, then on November 1st, the Project team can already collect deliverable reports to the accounting team for revenue recognition and to the accounts receivable team for billing purposes. The cut-off date must be agreed upon between PT KLM and the client. This will help minimize the risk of delays in revenue recognition. It is important to understand that the deliverable report not only functions as a tool for revenue recognition but also serves as evidence of transparency to clients regarding the work progress made by PT KLM. Given the importance of this report, PT KLM must implement a strict internal system to ensure the report is compiled accurately and reliably.
c) Using a revenue working paper: The revenue working paper will contain accounts for revenue, prepayment income, and accrued income. Given the complexity of revenue recognition at PT KLM, if accountants have a good revenue working paper, they will be able to trace contracts with accrued revenue and unamortized revenue. This will help avoid recognizing revenue that has not been fully earned and ensure the accuracy of revenue recognition according to the progress achieved in the field.
d) Understanding Contract Complexity: PT KLM management must carefully evaluate the complexity of contracts with clients. Accountants must have an understanding of each contract element to facilitate the revenue recognition process.
e) Compliance with SAK: PT KLM management must ensure that the entire revenue recognition process is in accordance with Financial Accounting Standards prevailing in Indonesia. This will help in maintaining the integrity of the company's financial reports.

One of the weaknesses of this discussion is the lack of specific data regarding the impact of delays in the submission of deliverable reports on the company's cash flow. In addition, the focus on the aspect of revenue recognition makes the discussion of external factors that may affect revenue recognition limited. For future research, it is recommended to investigate related external factors such as ESG (Environmental, Social, and Governance) regulations on revenue recognition and whether these regulations encourage companies to change the way they recognize revenue.

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