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EVALUATION OF PSAK 71 AND PSAK 72 IMPLEMENTATION ON SPORTS INDUSTRY IN THE PERIOD OF COVID-19 PANDEMIC

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ABSTRACT

This research aims to evaluate the implementation of PSAK 71 and PSAK 72 in the preparation of 2020's financial statements by entities, the impact of the COVID-19 pandemic in the preparation, and the mitigation effort. A case study approach was used and directed to the sports industry, based on the pandemic impact, with PT XYZ as the object. Primary data were collected through interviews, while secondary data were obtained from the entity's financial statements and annual reports. The results showed that the football club experiences difficulties implementing PSAK 71 and PSAK 72, due to the complexity of the new arrangements brought up by the two PSAKs and to the flexibility of the business execution in PT XYZ. The combination between PSAK 71 and PSAK 72 implementation and the pandemic that canceled the football league in Indonesia gave a significant effect on the preparation of financial statements for the year 2020. This was related to a larger loss allowance for trade receivables and the significant recognition of contract liability.

Keywords: COVID-19 pandemic, expected credit loss, football club, PSAK 71, PSAK 72.

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1. INTRODUCTION

The introduction or amendment of financial reporting standards could stimulate companies to make changes concerning their activities. New standard implementation could also result in revising the calculation of accounting numbers. In this case, the issuance of new financial accounting standards generally attracts the attention of various parties. This is because of the potentially significant implications in the preparation of financial statements (Napier & Stadler, 2020). On 26 July 2017, the Financial Accounting Standards Board of Ikatan Akuntan Indonesia or the Institute of Indonesia Chartered Accountants set two new Indonesian Financial Accounting Standards or *Pernyataan Standar Akuntansi Keuangan* (PSAK). These are the PSAK 71: Financial Instruments and PSAK 72: Revenue from Contracts with Customers. The standards adopt arrangements from IFRS 9 and IFRS 15, respectively, two International Financial Reporting Standards with similar topics. PSAK 71 and PSAK 72 are implemented by entities for the annual periods beginning on or after 1 January 2020, though the earlier application is permitted. According to the Institute of Indonesia Chartered Accountants, PSAK 71 and PSAK 72 have a related interaction. Moreover, the relatively longer effective date for their implementation allowed more time for companies to analyze their impact in preparing financial statements (Ikatan Akuntan Indonesia, 2017).

PSAK 71 mainly replaces PSAK 55: Financial Instruments: Recognition and Measurement, except for the hedge accounting arrangements in which entities could choose to still apply the one according to PSAK 55. The replacement brought several changes, including in terms of the arrangements for financial asset impairment, where the incurred credit loss model of PSAK 55 is changed to the expected credit loss (ECL) model of PSAK 71. PSAK 72 replaces several PSAKs and Interpretation of Financial Accounting Standards or *Interpretasi Standar Akuntansi Keuangan* (ISAK). This includes PSAK 23: Revenue, which gave different revenue recognition models according to transactions and events. In contrast, PSAK 72 provides one comprehensive model to recognize revenue from contracts with customers (Ikatan Akuntan Indonesia, 2020). Thus, due to the new arrangements set forth by PSAK 71 and PSAK 72, there might be increased complexity for their application by entities.

Apart from the change in arrangements, PSAK 71 and PSAK 72 implementation coincided with the Coronavirus Disease 2019 (COVID-19) pandemic that affected the entire world. On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic and urged all countries to pursue control measures responsively and aggressively (WHO, 2020). The COVID-19 pandemic has had an individual and social impact that spread to business companies. Consequently, changes in the companies' external environment, such as the application of a strict social distancing policy and other health protocols, could trigger adjustments in the management's operational plan. Changes in the supply and demand of products and services could also make the company unable to sustain its revenue level (Amankwah-Amoah et al., 2021). Financial reporting could be impacted due to the presence of the COVID-19 pandemic, making most entities encounter difficulties operating in a challenging economic environment. The increased uncertainty could make it challenging for companies to prepare financial statements, including in terms of assumptions and estimations used.

The polling at the conference held by the International Accounting Standards Board found financial instruments to be one of the financial reporting issues viewed as the most challenging to face due to COVID-19 (IFRS Foundation, 2020). IFRS 9 emphasizes using forward-looking information, including macroeconomic information, when assessing whether there has been a significant increase in credit risk and when measuring expected credit loss for recognizing loss allowance (PWC, 2020). Due to the operation of the entity and its partner in an environment faced with the pandemic, management should consider the pandemic's impact in assessing expected credit loss. This should include adding scenarios that reflect the downside of the pandemic. However, such treatment could be challenging due to the pandemic's uncertainty (Deloitte, 2020).

The COVID-19 pandemic could also affect IFRS 15 implementation. One of the impacts is related to the measurement of variable consideration. IFRS 15 requires that variable consideration be recognized only if it is highly probable that the amount recognized would not result in a reversal when the uncertainty is solved. In this regard, the COVID-19 pandemic could affect the assumptions made by management (PWC, 2020). Furthermore, since many customers experience financial difficulties and liquidity issues due to the pandemic, the entity might need to develop procedures to assess the collectibility of arrangements with customers appropriately. There might be a need to reassess the collectability when the pandemic causes a significant decline in the customers' business. In contrast, the entity might not be able to perform its performance obligation as a consequence of the policies applied by society and government to overcome the pandemic, making it unable to recognize revenue (Deloitte, 2020).

Linking these issues with PSAK 71 and PSAK 72 implementation, which adopt the arrangements in IFRS 9 and IFRS 15, thus the implementation of the new PSAKs in 2020, marked by the rise of the COVID-19 pandemic, could potentially increase complexities, besides those raised by the new arrangements. This could demand a more significant judgment and assumption from management. Therefore, this research aimed to evaluate the implementation of PSAK 71 and PSAK 72 in the preparation of financial statements for the year 2020 by Indonesian entities, including connecting it with the impact of the pandemic in the preparation and the mitigation effort by the entities.

This research was performed using a case study approach and directed specifically to the sports industry. The choice of the industry was due to the information collected on the effect of the COVID-19 pandemic that was relatively significant for companies outside of Indonesia that operate in the sports industry, including Borussia Dortmund, Glasgow Celtic, and Manchester United (Borussia Dortmund, 2020; Celtic, 2020; Manchester United, 2020). The situation faced by the companies showed that the sports industry was highly impacted by the pandemic, specifically on IFRS 9 and IFRS 15 implementation for the preparation of financial statements. The impact was mainly felt because of the hurdle in the football leagues' performance due to the policies implemented to manage the spread of COVID-19.

Based on the choice of the sports industry as the focus of this research, the case study was directed toward Indonesia's sports industry, especially concerning football clubs. This was based on the cancellation of the Indonesian football league in March 2020 due to the COVID-19 pandemic, potentially causing a similar effect faced by companies outside of Indonesia in the sports industry. Therefore, the case study was performed on PT XYZ, located in Indonesia. This entity primarily operates in the sports industry, with the scope of business activities including the management of a football club and other supporting activities. The management stated that the company's operating results and financial position were influenced by the COVID-19 pandemic, which declined revenue by 64.5% in 2020 compared to 2019. Moreover, the company implemented PSAK 71 and PSAK 72 for the annual year 2020, thus appropriate for this research topic.

The next section discusses the literature review and previous research in line with this topic. This is followed by the explanation of the research method used, a brief profile of PT XYZ, and the results and discussion. The last section presents conclusions from the case study performed.

2. LITERATURE REVIEW

2.1. ARRANGEMENTS IN PSAK 71 AND PSAK 72

PSAK 71: Financial Instruments is a standard aiming to set principles for financial reporting on financial assets and financial liabilities, that will provide relevant and useful information for financial statement users to evaluate the amount, timing, and uncertainty of the entity's future cash flows. PSAK 72: Revenue from Contracts with Customers aims to set principles applied by entities to report useful information for financial statements users regarding characteristics, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In the context of this research, there is a need for a further discussion on the recognition and measurement of expected credit loss in PSAK 71 and the revenue recognition model in PSAK 72.

As stated in PSAK 71 regarding impairment (Ikatan Akuntan Indonesia, 2020), an entity recognizes loss allowance for expected credit loss (ECL) on financial assets measured on amortized cost or measured on fair value through other comprehensive income, lease receivable, contract asset or loan commitment and financial guarantee contract that applies the impairment requirements. ECL is the probability-weighted estimate of credit losses, which is the present value of the entire cash shortfall, over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows due to an entity according to the underlying contract and the cash flows expected to be received by the entity.

The entity measures loss allowance on every reporting date for a financial instrument that equates to the lifetime ECL, if the credit risk on that financial instrument has experienced a significant increase since the initial recognition. However, if on the reporting date there has not been a significant increase in the credit risk of a financial instrument since initial recognition, the entity shall instead measure a loss allowance for the financial instrument that equals the 12-month ECL. Nevertheless, based on the simplified approach, the entity always, or could choose to, measure loss allowance that equates to lifetime ECL for trade receivable or contract asset resulting from the transaction in the scope of PSAK

72 and lease receivable resulting from the transaction in the scope of PSAK 73: Leases. Concerning the ECL measurement, the entity conducts the measurement in a way that reflects: an unbiased amount and probability-weighted determined by evaluating a series of possible outcomes; time value of money; and reasonable and supportable information available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

The expected credit loss model of PSAK 71 changed the incurred credit loss model of PSAK 55: Financial Instruments: Recognition and Measurement. In the case of PSAK 55 implementation, an entity could only recognize impairment loss with the existence of objective evidence that the financial asset has experienced impairment, while also forbidding the use of forward-looking information despite it being very likely to happen. Therefore, the ECL model of PSAK 71 considers the risk of the financial asset defaulting, not only whether a loss has occurred.

PSAK 72 introduces a five-step model for making revenue recognition from contracts with customers (Ikatan Akuntan Indonesia, 2020). These steps are described as follows.

1. Identifying contract with the customer
   Entity records contract with a customer in the scope of PSAK 72 only if all of the following criteria are fulfilled: each party has agreed on the contract and committed to performing their respective obligations; the entity can identify the right of each party regarding the goods or services to be transferred; the entity can identify the payment term of the goods or services to be transferred; the contract has commercial substance; and it is highly probable that the entity could collect the consideration that would be their right in exchange for goods or services transferred.
2. Identifying performance obligation
   At the contract's inception, the entity assesses the goods or services promised in the contract with a customer and identifies as a performance obligation every promise to transfer to the customer. This may be a good or service (or a packet of goods or services) with a distinct characteristic or a series of goods or services with a distinct characteristic that is substantially the same and has the same transfer pattern to the customer.
3. Determining the transaction price
   The transaction price is the consideration amount that an entity expects to be entitled to in exchange for transferring the goods or services promised

to the customer, which can include a fixed amount, variable amount, or both. The nature, timing, and amount of consideration promised by the customer influence the transaction price estimation.

4. Allocating the transaction price to separate performance obligation
   The entity allocates the transaction price to every performance obligation in the amount depicting the consideration expected as entitlement in exchange for transferring goods or services promised to the customer.
5. Recognizing revenue when (or as) the entity fulfills the performance obligation
   The entity recognizes revenue when (or as) it fulfills the performance obligation by transferring goods or services promised to the customer.

PSAK 72 replaces several PSAKs and ISAKs, including PSAK 23: Revenue, the one PT XYZ used before implementing PSAK 72 in 2020. PSAK 23 focuses more on the revenue arising from transactions and events and provides different revenue recognition models for goods sales, service sales, and the use of the entity's assets by other parties resulting in interest, royalty, and dividends. In contrast, PSAK 72 gives one comprehensive revenue recognition model for revenue arising from contracts with customers. It also emphasizes the consideration of the requirement stated in the contract and all relevant facts and circumstances when applying this PSAK.

2.2. Previous Research

Several previous studies evaluated the implementation of IFRS 9, IFRS 15, PSAK 71, or PSAK 72. However, at the moment this paper is written, there has not been other research with a similar scope applied in this research, which is the evaluation of PSAK 71 and PSAK 72 implementation during the COVID-19 pandemic, especially in the context of a company operating in the sports industry. Nonetheless, previous research provided more insight regarding the method used, judgment and consideration, and the results obtained.

Gomaa et al. (2019) investigated the efficacy of replacing the incurred credit loss model from IAS 39 Financial Instruments: Recognition and Measurement with the expected credit loss model from IFRS 9 for recognizing impairment loss of financial instruments. Participants from universities in North America assumed the role of financial managers and were instructed to make periodic decisions concerning the loss allowance. They were asked to consider the potential future loss in the sales and production environment in which they were being placed. The results showed that the combined effect of eliminating the requirements for the presence of objective evidence to be able to recognize the impairment and requiring management to utilize forward-looking information increases the amount and sufficiency of the periodic decision on loss allowance.

Napier and Stadler (2020) examined the annual report prepared by large companies in Europe, the commentary letters sent to IASB during the development process of IFRS 15, and conducted several interviews to evaluate the impact of IFRS 15. The results showed that the impact of IFRS 15 on accounting numbers was relatively minimal for most companies, except for several industries, though the disclosure aspect was elevated. Although several companies considered IFRS 15 while preparing a new contract, they did not bother with existing contracts. Some made changes in the business operation to be more consistent with the requirements in IFRS 15. This mainly became an issue in the industry where contracts involved complex provisions.

Puspamurti and Firmansyah (2020) examined PSAK 72 implementation on PT Telekomunikasi Indonesia Tbk (PT Telkom). The study found that PT Telkom experienced several obstacles in implementing PSAK 72, including the different interpretations of every contract with a customer and obstacles from the human resource side. However, it had prepared for the PSAK 72 implementation, said to be an important aspect for entities implementing the new PSAK. The entity performed a gap analysis to understand the difference between PSAK 23: Revenue and PSAK 72.

The previous studies showed that the implementation of IFRS 9, IFRS 15, PSAK 71, or PSAK 72 is a worthy topic due to the complexities arising from the new requirements. However, the effect of the COVID-19 pandemic has not been optimally explored in implementing those standards. This presents an opportunity for this study to give a more aligned view with the recent issues faced by entities.

3. RESEARCH METHODS

The method used in this research was the case study approach, which related to a detailed and intensive analysis of a case, generally of a certain community or organization, to gain a deep understanding of the chosen case (Bryman, 2012). The approach was relevant to be performed as a consequence of the evaluation of

PT XYZ which operates in the sports industry, to understand the PSAK 71 and PSAK 72 implementation in the period of the pandemic on that object.

This study used both primary and secondary data, referring to the characteristic of a case study regarding the use of a variety of data sources, as stated by Yin (2018). Semi-structured interviews were conducted online, with respondents being part of or related to PT XYZ. The aim was to understand in more detail the phenomenon evaluated in this research and gather information to answer the research questions. The interviews were separately performed with three respondents, namely the accounting manager and financial director of PT XYZ and one external auditor. The accounting manager and financial director are the internal parties within PT XYZ with an understanding of this research topic, while the external auditor performing a financial statement audit on PT XYZ gave an outsider perspective that comprehends the context of this research. Additionally, this research used secondary data in the form of the financial statements and annual reports of PT XYZ.

The collected data were analyzed using qualitative content analysis and thematic analysis techniques. These techniques involved searching underlying matter and themes based on the interview transcripts. The acquisition of the underlying matter and themes did not use specific software as would have been for the quantitative content analysis technique. In contrast, the analysis focuses on the effort to construct meaning from the interview transcripts by reading the transcripts directly and repeatedly, and also thoroughly and comprehensively, as explained by Forman and Damschroder (2007) and Bryman (2012).

4. ORGANIZATION PROFILE

PT XYZ was established in 2014, located in Indonesia, and mainly operates in the sports industry. This entity owns a football club, competing in the Indonesian football league. Therefore, its business mainly revolves around sports, with additional activities such as retail trade and consulting activities. During the 2016-2019 period, the company developed subsidiaries through establishment and acquisition, with the scope of business including sports agency, radio, café, and e-sports team management.

The accounting department of PT XYZ is directly responsible to the president and financial directors for managing the bookkeeping of PT XYZ and its subsidiaries. The group's consolidated financial statements are prepared and presented according to the financial accounting standards in Indonesia. This includes PSAK and ISAK set by the Financial Accounting Standards Board of the Institute of Indonesia Chartered Accountants. The consolidated financial statements for 2019 and 2020 were audited by external auditors, with an unmodified opinion concluded by the auditor for both years.

The entity's sources of revenue are classified into several groups, including (1) commercial revenue, from the sponsorship and other commercial agreement; (2) contribution revenue negotiated centrally by the competition operators; (3) matchday revenue, including all match activities held in the stadium managed by the entity, the share of gate receipt from domestic matches played in another stadium, and the cost to organize other events; (4) sports agency revenue, related to the charge to sponsors who work together for the sponsorship activities of football clubs in Indonesia, and also the charge for live video streaming and video recording services; and (5) other revenues.

5. Result and Discussion

5.1. Results from the Research

The semi-structured interviews with PT XYZ's accounting manager as the primary respondent provided a technical insight concerning the entity's accounting policies on PSAK 71 and PSAK 72 implementation. The interviews were also performed with the financial director and an external auditor. The audio recordings of those interviews were transcribed to conduct qualitative analysis.

The underlying matter extracted from the interviews was that the football club experiences difficulties implementing the new PSAKs, especially due to the management view of the complexities arising from the new arrangements in PSAK 71 and PSAK 72 regarding the measurement of expected credit loss for trade receivables and the revenue recognition from contracts with customers, which requires thorough attention to the clauses in the contracts. Additionally, management stated that difficulties came due to the flexibility of business operations in PT XYZ.

These issues were further raised amidst the COVID-19 pandemic, which brought uncertainty and affected various internal and external aspects. Specifically, some central themes were withdrawn based on the interview transcripts, adjusting to the research context. These include cancellation of the football league, loss allowance, the aging of trade receivables, completeness of documentation, and the inability to satisfy the performance obligation. Each of these themes is explained further in the following sections.

5.2. THE EFFECT OF COVID-19 PANDEMIC ON PT XYZ

The COVID-19 pandemic affected PT XYZ mainly by influencing the football league. This was broadly experienced by companies operating in the sports industry, particularly one managing a football club. As stated in the interview with the accounting manager, the most significant effect of the COVID-19 pandemic was a 64.5% reduction in total revenues from Rp 215.2 billion in 2019 to Rp 76.4 billion in 2020. Table 1 shows the entity's revenue groups for 2019 and 2020.

Table 1. Revenue Groups in PT XYZ

	2020	**2019**	**Change**	
	(Rupiah)	**(Rupiah)**	**(Rupiah)**	**%**
Club management				
Commercial	33,948,152,725	83,726,701,961	(49,778,549,236)	-59.5%
Contribution	4,601,145,750	9,818,563,364	(5,217,417,614)	-53.1%
Matchday - Net	606,155,000	4,332,333,260	(3,726,178,260)	-86.0%
Sports agency				
Sponsor	24,306,052,476	29,124,282,238	(4,818,229,762)	-16.5%
Live video streaming and video recording	10,036,508,181	84,914,048,019	(74,877,539,838)	-88.2%
Others	2,920,510,774	3,292,758,670	(372,247,896)	-11.3%
Total	**76,418,524,906**	**215,208,687,512**	**(138,790,162,606)**	**-64.5%**

Table 1 shows that revenue reduction happened in each group mainly due to the cancellation of the football league in Indonesia in 2020, as a consequence of the COVID-19 pandemic and the government's policy to manage its spread. The Football Association of Indonesia (PSSI) released a policy to stop all activities regarding football because of the pandemic. This situation significantly affected PT XYZ because it relies on the match league and spectators that produce revenue and cash flow from the sponsors, streaming, and other services.

The management of PT XYZ took steps to overcome the impact of the COVID-19 pandemic, including the efforts to reduce expenses to counterbalance the revenue reduction. This included salary cuts for the football players and coaches, the director and commissioner, and the management. Furthermore, the entity undertook short-term investment intensively but with measured risk to overcome the reduced operational revenue. This short-term investment increased by 53.29%, from Rp 114.4 billion in 2019 to Rp 175.3 billion in 2020. The realized gain from the investment increased significantly from the previous amount of Rp 982 million in 2019 to Rp 52.7 billion in 2020. This compensated for the operational loss recorded by the entity. Moreover, PT XYZ tried adapting to the pandemic through business innovation in the digital sector. The financial director stated that business diversification was important in realizing the significance of the pandemic impact on the main football club business.

5.3. PSAK 71 AND PSAK 72 IMPLEMENTATION IN THE FINANCIAL STATEMENTS FOR THE YEAR 2020

PT XYZ began implementing PSAK 71: Financial Instruments and PSAK 72: Revenue from Contracts with Customers for its financial reporting according to the effective date, which was on 1 January 2020. Therefore, the entity did not make an early implementation for the new PSAKs. Before 2020, PT XYZ implemented PSAK 55: Financial Instruments: Recognition and Measurement and PSAK 23: Revenue. The entity did not specifically perform a gap analysis prior to the implementation of PSAK 71 and PSAK 72, although said to be an important measure by Puspamurti and Firmansyah (2020) to be conducted by entities applying the new PSAKs, to comprehend the difference between the previous and new standards.

According to the accounting manager of PT XYZ, whether for the implementation of PSAK 71 or PSAK 72, no specific standard operating procedures were established. The manager’s responsibility related to the implementation is directed more toward managing the documentation for revenue recognition, maintaining trade receivables to avoid an overdue exceeding 1 year, and also maintaining cash flows. This is supported by the statement of one of the external auditors that PSAK 71 and PSAK 72 in PT XYZ focus more on the collection of trade receivables and the completeness of documentation for the sponsorship revenue.

With the implementation of PSAK 71’s arrangements in PT XYZ regarding the recognition and measurement of expected credit loss (ECL), the treatment of the entity’s management showed no significant changes in calculating impairment reserve for financial assets compared to when implementing PSAK 55. Moreover, there was no specific documentation for PSAK 71 implementation. The management mainly relied on the auditor's findings for the examination and the measurement of ECL. This was caused by the management's optimism that trade receivables would be paid. In this case, the management would first check which clients are optimistic about getting paid, even when the receivables are overdue.

PT XYZ used several financial instruments, including those whose loss allowance should be measured according to PSAK 71 paragraph 5.5.1. These instruments include cash and cash equivalent, trade receivables, other receivables, refundable deposits, and financial assets measured at fair value through other comprehensive income. In this case, PT XYZ only made a loss allowance for trade receivables and not the other financial assets in the preparation of financial statements for the year 2020. This is because, for financial assets other than trade receivables, there are assumptions and judgments that they have a low credit risk. According to PSAK 71 paragraph 5.5.10, entities may assume the credit risk on financial instruments has not increased significantly since the initial recognition if it has been determined that the financial instrument has a low credit risk on the reporting date. Consequently, entities measure the loss allowance for the financial instrument that equals the 12-month ECL. The measurement of the 12-month ECL produced a non-significant value, thus causing the loss allowance to not be recognized by PT XYZ for financial assets other than trade receivables.

The ECL measurement for trade receivables used the simplified approach following the arrangement in PSAK 71, where the loss allowance measured equates to the lifetime ECL. Furthermore, PT XYZ used practical guidance in the form of a provision matrix to determine the ECL from the trade receivables portfolio in 2020, mainly from the calculation of the external auditor's correction. This situation was not an unreasonable matter, as stated by the auditor that PSAK 71 indeed caused various parties to panic in implementing the arrangements and that the exact formula had not been found for the related calculation.

In preparing the provision matrix, the trade receivables were grouped based on the same credit risk and age. The auditor used a statistical approach for the input calculation in the matrix. Moreover, the ECL was based on the historical credit loss experience for 3 years before the period ended. This was then adjusted to the current and forward-looking information about macroeconomic factors affecting the entity's customers. The main macroeconomic factors identified were the gross domestic product, unemployment level, and inflation. Forward-looking information used in the ECL calculation for the trade receivables concerns the three factors. Tables 2 and 3 show the use of a provision matrix in recognizing loss allowance for trade receivables. The two tables measured loss allowance according to the arrangements in PSAK 71. In contrast, the entity implemented PSAK 55 in 2019 and the recognized impairment loss on trade receivables was worth Rp 311,701,680.

Table 2. Loss Allowance for Trade Receivables as of 1 January 2020

	Expected Loss Rate (%)	Gross Carrying Amounts (Rupiah)	Loss Allowance (Rupiah)
Not overdue	0.07%	64,052,150,579	43,031,807
Overdue			
1-60 days	0.18%	2,506,383,938	4,509,989
61-120 days	1.82%	3,195,041,454	58,100,930
>120 days	38.33%	17,273,014,783	6,619,953,696
Total		**87,026,590,754**	**6,725,596,422**

Table 3. Loss Allowance for Trade Receivables as of 31 December 2020

	Expected Loss Rate (%)	Gross Carrying Amounts (Rupiah)	Loss Allowance (Rupiah)
Not overdue	1.24%	4,626,434,969	57,255,131
Overdue			
1-60 days	1.35%	7,264,873,193	98,135,610
61-120 days	7.72%	1,325,498,670	102,314,111
>120 days	42.80%	41,324,186,332	17,685,214,655
Total		**54,540,993,164**	**17,942,919,507**

The provision matrix preparation in PT XYZ in recognizing the loss allowance for trade receivables that equates to the lifetime ECL had followed the PSAK 71 and the published best practice. The model had been in the form of an ECL model and not still using the incurred credit loss model following PSAK 55, which requires the existence of objective evidence on impairment for the financial asset to be able to recognize an impairment loss. Furthermore, the expected loss rate for every trade receivables age group had been determined with different values. In this case, a long-overdue receivable increases the loss rate for that age group. This is appropriate according to the best practice from PWC (2018), which states that the provision matrix for IFRS 9 should reflect a different loss rate for a different receivables age group. Receivables with longer age are expected to have a lower settlement probability, leading to a higher loss rate.

Besides that, following PSAK 71 paragraph PP5.5.35, the provision matrix used historical credit loss history on trade receivables. This was then adjusted based on current observable data to reflect the effect from current and forward-looking conditions that do not affect periods where the historical data originated. In this situation, the arrangements in PSAK 71 allowed and required the use of forward-looking information to measure ECL on the financial asset. This is unlike the previous arrangement in PSAK 55, which stated that loss arising from future events could not be recognized, even if it is very likely to occur. Moreover, the use of forward-looking macroeconomic factors corresponded with the best practice published by PWC (2018) and EY (2020) that entities should determine relevant macroeconomic factors such as GDP, unemployment level, and inflation, impacting the loss rate from trade receivables. They should then adjust the historical credit rate to reflect the current and future economic conditions.

The management of PT XYZ recognized loss allowance for trade receivables differently from the statistical approach used by the external auditor. The management relied heavily upon estimation and judgment and might consider not recognizing loss allowance for trade receivables already overdue for more than one year when the management was optimistic in its receipt of payment. Therefore, the correction from the external auditor in calculating loss allowance allowed an adequate allowance. This is because the information used was relatively more comprehensive, generally consistent with best practice in preparing the provision matrix, and considered the time value of money underlying ECL measurement. PSAK 71 paragraph PP5.5.28 states that ECL considers both the payment amount and timing. Consequently, credit loss occurs even when the entity expects full payment after the contractual due date.

Concerning the PSAK 72 implementation on PT XYZ, the external auditor had assessed the five criteria to be fulfilled in identifying contracts with customers. This was conducted to ensure that the related contract could be recorded in the scope of PSAK 72. The result showed that all the contracts with customers in PT XYZ fulfilled the entire criteria and referred to PSAK 72. According to the arrangements in PSAK 72, PT XYZ performs analysis on the fulfillment of the 5-step model to recognize revenue from contracts with customers. In general, the applied policies by PT XYZ stipulate that contract assets should be recognized when the total consideration paid by the customers is less than the balance of performance obligations already satisfied. When this is not the case, contract liability should be recognized. The external auditor assessed management's assertion on the percentage of performance obligations satisfied by the entity to ensure the revenue recognition was appropriate with PSAK 72.

The change in the revenue recognition model has introduced entities with new concepts to be implemented. However, PT XYZ does not specifically formulate procedures for the implementation. According to the accounting manager, the revenue recognition after implementing PSAK 72 emphasizes the completeness of documentation to enable the revenue to be recognized. The fulfillment of performance obligations according to the contract is also a requirement to be satisfied by the entity to be able to recognize revenue. This treatment is mainly intended for the commercial revenue groups, especially sponsorship, as emphasized in the discussion with the accounting manager and external auditor.

Concerning the documentation for recognizing sponsorship revenue, the documents to be completed are a contract, quotation, PO, and invoice. For an invoice to be requested or issued, the client should first fulfill the quotation given by the entity. Afterward, the client gives PO to the entity for invoicing. In this case, contracts between the entity and client must exist as a basis for quotation and invoice. Dealing on that contract is usually conducted in October-December the previous year, with every party that wants to sponsor the entity, followed by contract signing in January. Moreover, the contract mentions the billing term, and the entity must ensure whether billing could be performed when it has reached every term. For instance, a contract may state that "*Billing in term 1 will be completed in June,*" while the quotation has not been signed in June. In this case, PO would not have been received from the client, meaning the invoice could not be issued and sent. This indicates that all documents must be completed to recognize revenue according to the term stated in the contract.

The accounting manager stated that implementing PSAK 72 is more complex than PSAK 23. The contract value is recognized and distributed monthly during the contract when implementing PSAK 23 for revenue recognition with terms such as sponsorship. Therefore, for most of the revenue, the recognition uses a straight-line basis in case the client's rights remain unchanged during the contract. However, PT XYZ did not apply those treatments in 2020 for revenue recognition. This was due to the fulfillment of performance obligations over time for sponsorship contracts following PSAK 72, which led to measuring progress toward complete satisfaction based on the related documentation. Consequently, the entity cannot recognize sponsorship or commercial revenue without complete documentation. This differs from PSAK 23 implementation for sponsorship revenue, where the entity mainly applied practical guidance in the form of revenue recognition based on a straight-line basis for the contract period according to PSAK 23 paragraph 25.

The documentation completeness was emphasized in PT XYZ for PSAK 72 implementation. However, this did not mean such documentation was previously neglected when implementing PSAK 23. The completeness of documentation means that all the mentioned documents regarding sponsorship revenue were a prerequisite before PT XYZ could recognize revenue. This policy was developed by the management of PT XYZ to accommodate the revenue recognition according to the new arrangements in PSAK 72. When implementing PSAK 23, in general, the only needed document for recognizing revenue was the contract to acquire information regarding the value and its duration. Therefore, it was relatively simpler compared to implementing PSAK 72 where PT XYZ would recognize revenue when issuing an invoice, after being preceded by the existence of a contract, quotation, and PO. This treatment was mainly applied due to the arrangement in PSAK 72 that an entity recognizes revenue when (or as) it fulfills performance obligations based on the contracts with customers. In the context of PT XYZ, such fulfillment lies in the report attached to the invoice, stating the performance obligation fulfilled by the entity and approved by the client.

In general, the steps implemented by PT XYZ to recognize revenue were adequate with the arrangements in PSAK 72. Referring to the external auditor assessment, all contracts with customers in 2020 fulfilled the criteria to be recognized with PSAK 72. Moreover, the entity's documentation of the contracts enabled the measurement of progress toward complete satisfaction on a performance obligation. This refers to the report attached to the invoice mentioning performance obligations satisfied by the entity and approved by the customer. Also, the external auditor's examination of that attachment increases the assurance concerning the reasonableness of the revenue percentage recognized by the entity, conforming with PSAK 72.

5.4. The Impact of Implementing PSAK 71 on Financial Statements

One objective of this case study was to understand the impact of PSAK 71 and PSAK 72 implementation in PT XYZ's financial statements. The implementation was conducted beginning in 2020 according to the effective date. Because the year 2020 was characterized by the COVID-19 pandemic and the pandemic also affected PSAK 71 and PSAK 72, it was difficult to isolate the two impacts individually. Therefore, this section discusses the impact of PSAK 71 and PSAK 72 implementation in the context of an entity operating in an environment influenced by the COVID-19 pandemic, to offer a comprehensive understanding.

The PSAK 71 implementation significantly affected PT XYZ’s financial statements, specifically in calculating loss allowance for expected credit loss (ECL) on trade receivables. The effects were reflected in two aspects, the change in impairment arrangements from PSAK 55 to PSAK 71 and the COVID-19 pandemic, which affected the PSAK 71 implementation.

Concerning the effect of changes in the new arrangement raised by PSAK 71, the 2019 allowance on trade receivables was Rp 311 million based on the incurred credit loss model of PSAK 55. In comparison, the ECL model of PSAK 71 shows the recognized loss allowance was Rp 6.7 billion on 1 January 2020. The significant increase is consistent with the research of Gomaa et al. (2019), which showed that the use of the ECL model points to an increase in the amount and adequacy of the periodic decision on loss allowance. This is due to the combined effect of eliminating objective evidence requirements and requiring forward-looking information.

The pandemic impact on PSAK 71 implementation is visible when comparing the loss allowance on 1 January 2020 with 31 December 2020. Table 3 shows that the loss allowance was Rp 17.9 billion as of 31 December 2020, a significant increase compared to 1 January 2020, although in actuality the gross carrying amounts of trade receivables decreased significantly in 2020. One cause was partly due to the aging of the trade receivables, considering receivables in a higher age group were charged with a larger expected loss rate. Tables 2 and 3 show that as of 1 January 2020, most receivables were not overdue, and only 19.85% were overdue for more than 120 days. In contrast, the aging as of 31 December 2020 shows that most receivables were overdue for more than 120 days, which equals 75.77% of the total trade receivables value. This could be attributed to the pandemic, making it harder for the client to make payment for various reasons, including the vagueness of the football league in Indonesia.

No specific reference showed the information concerning the pandemic that affected the determination of the expected loss rate. However, the external auditor stated that the effect was more indirect on the factors in calculating the loss rate.

There was a significant increase in the expected loss rate for every receivables group as of 31 December 2020. This could be attributed to the pandemic's effect on the related macroeconomic factors for the loss rate to reflect the current and future economic conditions. Furthermore, the pandemic's impact could be seen from its influence on the trade receivables' age fluctuation which was also statistically counted. The pandemic is reflected in the information used as input in measuring ECL. Therefore, the larger loss rate and the long age of receivables increased the loss allowance recognized for trade receivables.

However, added complexities could be raised if the ECL measurement for trade receivables in 2020 not only incorporated the pandemic effect indirectly through macroeconomic factors but also explicitly considered the presence of the pandemic in the measurement. EY (2020) published a best practice about the pandemic's impact on the expected credit loss using a simplified approach, specifically for the practical guide with a provision matrix. Due to the pandemic, the steps applied in preparing the provision matrix might need adjustment to accommodate that impact. In this case, the previously applied segmentation of the trade receivables portfolios might be irrelevant in the period of COVID-19 pandemic. Even the external auditor of PT XYZ explained that PT XYZ's customers experienced different circumstances in the period of the pandemic, and some were not affected. The publication mentioned that the ideal approach was to segment the customers by evaluating the stress experienced after the emergence of the COVID-19 pandemic. Examples are four segments or groups: minimal stress, short-term stress, medium-term stress, and long-term stress.

The overall preparation of the provision matrix by PT XYZ, based on the calculation of the auditors, could be said to be appropriate with PSAK 71. However, the comprehensive consideration of the pandemic impact was minimal in that assessment. The analysis of the impact was a difficult matter, accompanied by significant uncertainties, but to ensure the relevance of the financial information presented by the entity and that it had fairly represented the economic phenomenon in the period of COVID-19 pandemic, the entity should put more effort to take into account and consider the pandemic impact thoroughly.

Moreover, the efforts pursued by PT XYZ aimed to mitigate the pandemic's effect in PSAK 71 implementation mainly involved managing the trade receivables and intensively following up with the clients. Concerning the uncollected receivables near overdue for more than 1 year, management would follow up with the client to make the payment, with the result of the payment agreement by the client. This effort ideally would decrease the receivables aging which is an input in the provision matrix, and lead to a non-significant calculation of the loss allowance amount.

5.5. The Impact of Implementing PSAK 72 on Financial Statements

The PSAK 72 implementation in preparing the financial statements of PT XYZ in 2020 significantly affected revenue recognition, adjusting to the 5-step model. Table 1 shows revenue recognition by PT XYZ for every revenue group. The 2019 revenue implemented PSAK 23 was not restated using PSAK 72. In comparison, PSAK 72 was implemented in 2020.

The combination of PSAK 72 implementation and the COVID-19 pandemic was felt significantly by PT XYZ regarding revenue recognition in 2020. In this regard, documentation completeness is crucial to recognize revenue in PT XYZ. However, the auditor’s correction showed that the fulfillment of performance obligation as stated in the contract should also be noticed. The arrangement in PSAK 72 explains that the entity recognizes revenue when (or as) it fulfills performance obligation by transferring promised goods or services to the customers. Complexity arising from PT XYZ’s inability to fulfill the performance obligation due to the cancellation of the football league because of the pandemic was one of the main factors causing the decrease in recognized revenue. This is in line with the publication from Deloitte (2020) that entities might not be able to perform the performance obligation in time due to the policy applied to overcome the effects of the pandemic. As a result, revenue cannot be recognized until the obligations are fulfilled.

The accounting manager stated that it is challenging to apply strict adherence to performance obligation fulfillment based on the contract in the sports industry, especially the football business. This is because the entity might not give the whole point of obligations agreed upon in the contract due to the client’s decreasing needs, and on the contrary, it might also fulfill the obligations over the points stated in the contract. Therefore, the execution in the football business is more flexible, unlike the PSAK 72 implementation. Consequently, this significantly impacts the sponsorship revenue, because the league’s cancellation hampered the obligation fulfillment based on the contract in 2020.

This problem was addressed by providing replacement benefits directed toward the online aspect or social media. However, the auditor’s correction showed that the obligation fulfillment should pay attention to the points in the underlying contract. The replacement benefits from the entity were communicated to the clients using e-mail or WhatsApp application with no formal and written amendment of the original contract. Although clients received the replacement and made the payment, the auditor noted that the replacement could not be acknowledged. According to the contract, in the case of force majeure, management needs to inform the sponsor and make a formal written agreement for the amendment. Therefore, the auditor corrected the amount of Rp 20 billion, and the recognition changed from revenue to contract liability. This was a major concern regarding PSAK 72 implementation in a football club. The reason was that the entity had high flexibility in business execution and did not strictly refer to the points in the contract. PSAK 72 paragraph 18 states that contract modification can be approved in a written agreement, verbally, or implied in the general business practice. However, the auditor's correction to not recognize the revenue until a written amendment is performed was appropriate due to the force majeure clause in the contract. This is based on PSAK 72 paragraph 03, which states that entities consider the contract requirements and all of the relevant facts and conditions when implementing PSAK 72.

The steps taken by the entity to mitigate that impact starting in 2021 included ensuring that it made a formal and written amendment for the obligations performed to be recognized as revenue. Furthermore, the entity also directed the contract in 2021 for the benefits that will be given by the entity to mention a replacement in the form of online or through social media. This helps mitigate the effect of a prolonged pandemic that causes uncertainty in the football league. Additionally, the documentation completeness is maintained to better execute the revenue recognition according to PSAK 72.

6. Conclusion and Discussion

The objective of this research is to evaluate the implementation of PSAK 71 and PSAK 72 by Indonesian entities for the year 2020, marked by the COVID-19 pandemic. The case study was performed on the sports industry, with PT XYZ as the object. The main result from this case study was that the management of PT XYZ experienced difficulties implementing PSAK 71 and PSAK 72. This was due to the new arrangements and the football club's flexibility. Another cause was not developing specific standard operating procedures for the implementation and not conducting a gap analysis with the previous PSAKs. This situation was escalated by the COVID-19 pandemic which brought many uncertainties.

The impact of implementing PSAK 71 on the financial statements in 2020 relates to the expected credit loss (ECL) on trade receivables. The calculation by external auditors used the provision matrix and statistical approach, adjusting historical experience with current and forward-looking macroeconomic factors, following the arrangements in PSAK 71 and the related best practice. Moreover, the new arrangements that eliminate the need for objective evidence on impairment and require forward-looking information significantly increased the loss allowance. The pandemic effect, reflected in the receivables' long aging and more significant expected loss rate, also led to a significant increase in the loss allowance, although a more comprehensive inclusion of the pandemic effect in the calculation had not been conducted. To mitigate the pandemic impact on PSAK 71 implementation, the entity manages the trade receivables intensively, including follow-up to the client for the overdue not to exceed a year.

Concerning the PSAK 72 implementation, there is an emphasis on documentation completeness allowing revenue recognition. The fulfillment of performance obligation is also an issue informed by the entity, where the execution in a football club is flexible and does not focus strictly on adherence to every obligation in the contract. This situation is heightened by the pandemic that hinders the ability to fulfill the obligation. Although the entity provided replacement benefits, no formal amendment was performed, and a written amendment was necessary according to the force majeure clause in the contract. This made the replacement not acknowledged, and contract liability was recognized significantly. The management overcame this in 2021 by ensuring a formal amendment to the contract to adjust the possible performance obligation to be fulfilled during the pandemic.

There are several recommendations from this case study. PT XYZ should consider best practices published by external parties regarding PSAK 71 and PSAK 72 implementation, even specifically regarding football club business. The COVID-19 pandemic should be considered more comprehensively to further increase the usefulness of the financial statements presented to the users in the period of the pandemic. Moreover, PT XYZ should develop the ECL measurement internally to incorporate thorough management's judgment while still following PSAK 71, and maintaining the consistency of the measurement when faced with the requirement to hire different external auditors.

The limitation of this research lies in the inability to directly observe the case study object due to the pandemic and only relying upon online interviews, and also the limited time to perform the research. Future research could be enhanced by observing the object directly to obtain a more comprehensive understanding of the procedures implemented by the entity. Increasing the number of respondents for interviews could also be considered, such as including the operational part of the entity.

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