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THE ACCOUNTING ISSUES AND CHALLENGES FACED BY THE COMPANY BEFORE GO PUBLIC : CASE STUDY FROM A LISTED COMPANY IN INDONESIAN STOCK EXCHANGE (IDX)

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ANALYSIS OF ACCOUNTING ISSUES AND CHALLENGES FACED BY THE COMPANY BEFORE GOING PUBLIC : A CASE STUDY OF A COMPANY LISTED ON INDONESIAN STOCK EXCHANGE (IDX)

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ABSTRACT

Go Public or Initial Public Offering (IPO) has become a priority choice by family businesses and start up to raise funds and increase liquidity. At the planning stage, stakeholders must formulate the objectives of “why go public” and conduct IPO diagnostic assessment to assess the internal readiness level on the area of finance, accounting and taxation, law and administration, corporate governance, and internal resources that will carry out all plans to go public. The research question is to analyze accounting issues and challenges faced by the Company in preparation to go public. The ultimate goal is to raise an awareness and solution on how to prepare high quality financial reports which will be reviewed by the investors, capital market supporting professionals (the auditors, legal consultants, underwriters), and the regulators (Financial Services Authority and Indonesian Stock Exchange). This study is divided into 3 parts: (i) analyzing accounting issues and challenges during the preparation of financial statements before IPO (ii) financial restructuring; and (iii) other internal matters during the IPO preparation stage. The research method was conducted by studying literatures from the Statement of Indonesian Financial Accounting Standard (PSAK) and Capital Market regulations, and conducting an interview with the key management of PT Avia Avian Tbk (Avian) which has been chosen as the case study after successfully listing its shares on the main board of IDX in November 2021. The analysis and discussion were carried out by linking the results of the interviews with the literature stated above and comparing them to the financial statements and public offering prospectus of Avian. The conclusion stated that Avian experienced various issues and challenges during the preparation stage of going public, but Avian was able to resolve the issues and challenges in sufficient time, after previously conducting IPO readiness assessments as the road map and forming competent internal resources to execute IPO plan.

Keywords: *Financial Statements, Go Public, IPO readiness, Restructuring*

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1. INTRODUCTION

The Corona Virus Disease-19 (COVID-19) pandemic which spread globally in the year 2020 and 2021 has significantly impacted economic growth in many countries and many industries from the government to private sectors (Indah & Muqsih, 2021). With this adversity, many companies are short of liquidity and urgently need fresh funds to maintain their operation which in the past were easily obtained from banking sectors. The COVID-19 pandemic has also impacted banks and non-bank financial institutions to tighten and limit new funding to private companies to avoid the risk of defaulted loans (Lubis *et al.*, 2020). Luckily, in some countries, including Indonesia, the capital market is growing rapidly as an alternate source of funds for listed companies or new Issuer companies which plan to sell their shares with the public (to go public) (Saraswati, 2020). The investors in the capital market are very diverse, ranging from a retail/individual to a corporate such as pension funds and global investors in the form of venture capital (VC) and private equity (PE) (Ra'du, 2006). These institutional investors have different objectives compared to individual investors, because they are willing to be the strategic partners and expect capital gains from the appreciation of stock market prices when they exit rather than expect regular dividend distribution (Christanti & Mahastanti, 2011).

Until the end of 2021, there had been 759 companies listing their shares in the Indonesian Stock Exchange (IDX) (IDX website, 2021). In the last 5 years (2017-2021), 254 companies listed their shares and out of these 254 companies, during the last 2 years (2020 and 2021), there were 105 companies listing on the IDX which made IDX rank number one in ASEAN in 2021, and No. 8 in the world in 2020 as the most active Stock Exchange that successfully listed the new issuers (IDX, 2021) in the bourse.

Ranking	Stock Exchange	Number of deals	% of global IPOs
1	Shanghai (SSE and STAR)	233	16.0%
2	NASDAQ	181	12.5%
3	Shenzhen (SZSE and Chinext)	159	11.0%
4	Hong Kong (HKEx and GEM)	144	9.9%
5	Tokyo, MOTHERS and JASDAQ	93	6.4%
6	Australia (ASX)	75	5.2%
7	Korea (KRX and KOSDAQ)	73	5.0%
8	Indonesia (IDX)	50	3.4%
9	NASDAQ OMX and First North	44	3.0%
10	National (NSE and SME) and Bombay (BSE and SME)	43	3.0%
11	New York (NYSE)	43	3.0%
12	Oslo Bors and Axess	42	2.9%
	All other exchanges	272	18.7%
	Global IPO activity	1,452	100.0%

Figure 1. Top 12 Stock Exchanges in the world – in 2020

Source : 2021 and 2020 EY Global Trend IPO report (Q-4) Final

Regional IPO facts and figures: Asia-Pacific

Year-to-date comparison

Regions/country*	IPOs YTD	Change YOY%	Proceeds US\$b YTD	Change YOY%
Indonesia	55	10%	4.8	>1,000%
Thailand	40	43%	4.1	-15%
Singapore	8	-27%	1.2	19%
Malaysia	23	28%	0.6	15%
Philippines	6	100%	2.4	194%
Asean¹	132	19%	13.1	71%
Mainland China ²	485	24%	79.8	18%
Hong Kong	95	-34%	42.2	-18%
Taiwan ³	13	NA	0.8	NA
Greater China	593	11%	122.8	3%
Australia	197	163%	9.2	144%
New Zealand ⁴	0	-100%	0.0	-100%
Oceania	197	159%	9.2	144%
Japan	128	38%	6.8	104%
South Korea	86	18%	17.4	271%
Asia-Pacific	1,136	28%	169.3	22%

Figure 2. Asia Pacific – the number of companies going public- in 2021

Source : 2021 and 2020 EY Global Trend IPO report (Q-4) Final

The higher number of companies that went public in the recent 2- 5 years indicates that going public has become the most attractive fundraising for companies to expand their business and maintain their existence in the market. Nevertheless, the reference materials from OJK and IDX about the IPO process and publication materials from 2 international accounting firms : PwC and EY about IPO Journey state that there are issues and challenges which must be realized by the company in the preparation stage before going public. The issues and challenges are mostly related to the areas of accounting, financial restructuring, legal, taxation, corporate structure, and other matters related to the preparation of the financial statements of the group companies. This paper was prepared with the aim of providing solutions (problem-solving) to address the issues and challenges faced by prospective issuers in preparing the financial statements and restructuring before going public. The research has been conducted through a literature study on accounting standards and capital market regulatory, and an interview with the key management of the researched company, PT Avia Avian Tbk (Avian). Avian conducted an IPO diagnostic assessments a few years before the IPO process, which was used as a tool to analyze the gap in the accounting issues and challenges during the preparation of the financial statements.

In Indonesia, many founder shareholders and the key management of private companies do not have strong knowledge about the process of going public.

They are unaware of the issues and challenges related to accounting, financial restructuring, and capital market regulations related to the preparation of financial statements. As such, the prospective issuer may spend a lot of resources, time, and costs during the preparation stage to manage these issues and may lose momentum to enter the capital market at the right time (Harahap, 2011). Therefore, the research questions in this paper focus on: (i) what are the issues and challenges related to accounting in the preparation of financial statements to be ready for going public; (ii) what are the issues and challenges related to financial restructuring before going public; and (iii) what are the issues and challenges other than accounting that should be identified before going public

Based on these three research questions, the literature being used, the research method, and the analysis and discussion focus on these three areas: (i) understanding about IPO process and IPO diagnostic assessment as the main activity during the preparation stage; (ii) understanding about relevant Indonesian PSAK and capital market regulations issued by OJK and IDX related to the preparation of financial statements and financial restructuring; (iii) performing an interview with the key management of PT Avia Avian Tbk as the object of the case study and reviewing their financial statements from 2018 to 2021; and (iv) summarizing the conclusion and recommendations after comparing the identified issues and challenges before IPO with the solutions taken by PT Avia Avian Tbk in preparing their Financial Statements as attached in the prospectus for public offering. The findings and recommendations of this study are expected to be used as preferred materials for the preparation for going public and to be used as shared knowledge to academicians and professionals that are involved in the going public journey in IDX.

2. LITERATURE REVIEW

2.1 INDONESIA CAPITAL MARKET

Based on the Indonesian Capital Market Law No.8/1995 Article 1, point 13, the capital market is an activity related to the Public Offering and trading of Securities of listed companies and regulating institutions and professions related to securities (Financial Services Authority – hereinafter referred to as *Otoritas Jasa Keuangan* or OJK, External Auditors, Legal Consultant, Public Notary, and Appraisal Companies). Meanwhile, the definition of Stock Exchange itself is a party that organizes and provides a system and/ or the means to bring together offers of buying and selling Securities of other Parties

with the aim of having trading securities between them. The party conducting the public offering is referred to as the Issuer.

The Capital Market brings together the owners of funds (suppliers of funds) with users of funds for medium-term and long-term investment purposes. Both parties carry out the sale and purchase of capital in the form of Securities. The owner of the fund submits a number of funds and the recipient of the fund (public company) submits a letter of proof of ownership in the form of Securities (Nasarudin, 2010). Every company has the potential to become an issuer, which means every company can make a public offering (Harahap *et al.*, 2020).

According to the OJK website (2020), a public offering itself is a securities offering activity carried out by Issuers to sell securities to the public based on the procedures regulated in Capital Market Law no. 8 of 1995 and its implementing regulations. In Indonesia, the capital market facilitates companies wishing to conduct a Public Offering of Securities (which can be in the form of stocks and/ or bonds) through PT BEI or the Indonesian Stock Exchange (IDX). Any company that wishes to raise funds can conduct an Initial Public Offering/IPO by becoming a public company (going public) and listing its shares on the IDX.

According to Yulfasni (2005), the capital market plays an important role in the economic progress of a country, because the capital market has significant functions namely : (i) a means to collect public funds to be channeled into productive activities; (ii) an easy, cheap, and fast source of financing for the business world; (iii) encouraging the creation of business opportunities and at the same time creating employment opportunities; (iv) increasing the efficiency of the allocation of production resources; (v) strengthening the operation of the market mechanisms in managing the monetary system, because the capital market can be a means of “open market operation” at any time by the central bank; (vi) reducing high interest rates towards a reasonable “rate”; and (vii) as an alternative investment for investors.

2.2 OBJECTIVES OF GOING PUBLIC

Going public: what are typical expectations?

IPO motivation



Figure 3. The general purpose for a company to go public

Source : IDX presentation materials during IPO Master Class - 2018

The official website of IDX presents major reasons or objectives of going public.

a) Increasing the value of a company.

In 2017, OJK issued Regulation no.51/POJK.03/2017 regarding a sustainable action plan. The purpose is basically to regulate listed companies, banks, and financial institutions to prepare and annually report the sustainable action plan on the area of “Environment, Social, and Governance” or ESG. A listed company which meets and achieves *sustainable development goals (SDG)* is recognized and appreciated by its investors and indirectly increases the valuation of market share (Fatchan & Trisnawati, 2016).

b) Increasing employees’ loyalty, company’s reputation, and image.

Analyst reports issued by securities companies and news coverage on listed companies are designed to improve the reputation, enhance the value and attract the best resources to join or strategic partnership to collaborate. The issuance of ESOP and MSOP is only available for listed companies, because of the available share market prices.

c) Increasing the liquidity of the company, share-holders, and employees.

Share prices of a listed company can easily be found from any search engines and easily traded in IDX. Thus, being a public company, any founders, shareholders, investors, and employees who need liquidity may easily sell their shares through IDX. IDX develops various indexes as a reference to compare the share prices based on its industry and size of

market capitalization, such as : LQ45, IDX30, IDX80, JII70, IDXBUMN20, IDX-MESBUMN17, SRI-Kehati, ESG-*Leader*.

d) Accelerating the implementation of Good Corporate Governance (GCG).

The Government of Indonesia has issued various regulations related to proper GCG such as Anti Bribery Law (UU no.31/1999), Anti-Corruption Law (UU no.20/2001), and Anti-Money Laundering (UU No.8/2010). These laws are mandatory to be included in the listed company's code of conduct as part of GCG required by OJK.

e) Obtaining benefit tax incentives.

Based on the Ministry of Finance's Decision (KMK) no.282/KMK.04/1997, any sale and purchase (trading) of listed company's shares in IDX are charged with the final tax of 0.1% and for the founder shareholders it is added by 0.5% and more. This tariff is relatively low, compared to the capital gain of trading shares in private companies which is charged progressively up to 25%.

Based on the publication materials from Ernst & Young 2018, IPO Journey is divided into 4 (four) phases :

a) Planning stage

It is important to conduct IPO readiness assessments in the form of workshops and interviews with stakeholders, covering the following areas: (1) Strategy; (2) Capital structure and group of companies; (3) Financial Reporting and Accounting Policy ; (4) Taxation; (5) Governance and compliance; (6) Organizational Structure, Business Process, and Human Resources; (7) System and cyber security; (8) Gap analysis and benchmarking. The results of IPO diagnostic assessment are

a gap analysis compared to the best practice and a road map to identify what could go wrong and how to find the solution during the preparation stage to go public .

b) Preparation stage

The company needs to formalize the structure of IPO Project Management Office (PMO) and strategize the preparation of the IPO road-map (human resources and organizational structure, processes, policies, systems, financial reporting, management, and the infrastructure process to support IPO).

c) Execution stage

The Company has appointed supporting professionals (external auditors, a legal consultant, and a public Notary). In this stage, the company starts

operating like a public company, identifies the target market, and engages underwriters.

d) Realization stage

The company has reached Post-IPO : timely announcement -financial reports and the use of proceeds, maintaining relationships with investors, submitting IPO projections and promises, evaluating financing opportunities for the next steps, and managing shareholder values.



Figure 4. Phases in the preparation for going public

Source : EY IPO Journey – the publication materials for clients 2018

2.3 BASIC ACCOUNTING PRINCIPLES - PSAK RESEARCH - PREPARATION OF FINANCIAL STATEMENTS

Table 1: PSAK for the preparation of Financial Statements ready for IPO

Basic Principles of Accounting	Related PSAK	Affected Accounts on Financial Statements
Revenue Recognition	PSAK 72	Accounts Receivable, Revenue
Measurement	PSAK 1, PSAK 13, PSAK 14, PSAK 16, PSAK 19, PSAK 68, PSAK 71, PSAK 72, PSAK 73	Investment Properties, Inventories, Fixed Assets, Intangible Assets, Financial Liabilities Assets, Income, Right of Use Assets and Lease Liabilities.
Presentation & Disclosure	PSAK 1, PSAK 5, PSAK 7	All Financial Statement Accounts, Operating Segments, Related Party Disclosures.
Consistency	All PSAK	All Accounts Financial Statements
Going Concern	PSAK 1	All Accounts Financial Statements

Matching Cost against Revenue	PSAK 1, PSAK 72	Revenue, Cost of Revenue, Expenses
Entity Theory	PSAK 1	Equity
Judgment and Estimates	PSAK 1, PSAK 10, PSAK 13, PSAK 14, PSAK 16, PSAK 19, PSAK 24, PSAK 46, PSAK 48, PSAK 57, PSAK 68, PSAK 69, PSAK 71, PSAK 72, PSAK 73	All accounts in the Financial Statements (for determination of functional currency), Classification of Financial Assets and Financial Liabilities, Allowance for Impairment of Financial Assets, Allowance for Impairment of Non-Financial Assets, Right of Use Assets and Lease Liabilities, Fair Value Determination, Deferred Tax Assets and Liabilities, Taxation, Provision for Employee Benefits, Depreciation and Amortization.
Conservatism	All PSAK	All Accounts Financial Statements

Table 2. PSAK for Financial Restructuring

Type of Restructuring	Related PSAK	Affected Accounts on Financial Statements
Capital Restructuring	PSAK 1, PSAK 56	Equity: Share Capital, Additional Paid-in Capital, Earnings Per Share
Group Restructuring (Subsidiaries and Associates)	PSAK 1, PSAK 15, PSAK 22, PSAK 38, PSAK 46, PSAK 65, PSAK 67	Investment, Goodwill, Equity: Additional Paid-in Capital
Restructuring at the Shareholders' Level	PSAK 1, PSAK 38, PSAK 22, PSAK 65	Equity: Share Capital, Additional Paid-in Capital, Differences in the Value of Equity Transactions with Non-controlling Interests

Table 3. Other Literatures

Issues and Challenges	Related Literature	Impact on Issuers and financial statements
Changes of auditor	PMK No. 17/PMK.01/2008, PMK No. 186/PMK.01/2021	Potential restatement of Financial Statement. Restatement of the previous year's Financial Statements and reappointment of auditors in the previous year
Appointment of capital market supporting profession	POJK No. 13/POJK.03/2017, KEP-41/BL/2008, KEP-16/BL/2011, KEP-372/BL/2012	The covering of service must be in line with FS presented or minimum 3 years.
Share based payments	PSAK 53	Share Based Payment Provision, Equity
IPO shares are offered to the US Investors	Rules Reg-S dan 144A from <i>US Stock Exchange Commission</i>	Additional review of interim FS, the auditors must have knowledge on cross border

3. RESEARCH METHOD

The research method in this thesis used the qualitative approach. According to Creswell & Guetterman (2019), qualitative research is a type of research that makes researchers rely on information from objects or participants on a broad scope, and general questions, collects data mostly from texts or participant words, and explains and conducts the research analysis of subjectively collected texts. The research method in this study includes the following steps:

- a) Conducting research from literature on the preparation of going public and IPO journey through the IDX website and International Accounting Firms in Indonesia (Ernst & Young and PwC), and several literature books on IPOs.
- b) Conducting interviews with the directors of PT Avia Avian Tbk and sending questions about issues and challenges faced in preparing financial statements, restructuring, and other internal matters before IPO. Interviews were conducted semi-structured in 2-3 times meeting with virtual calls.
- c) Comparing the results of interviews with the company's financial statements to understand how the issues are resolved and reflected in the financial statements and some disclosures in the prospectus.

The techniques used in data collection include (i) primary data and (ii) secondary data. Primary data were obtained from interviews with the directors of PT Avia Avian Tbk regarding accounting issues and challenges faced in preparing financial statements. Meanwhile, secondary data were collected through research from the company's financial statements of Avian from 2018 to 2021 which were attached in the 2021 Avian prospectus or through the company's website.

4. ORGANIZATION PROFILE

PT Avia Avian Tbk (Avian) was founded in 1983 and has its domicile in Surabaya, East Java. Currently, Avian is engaged in the production and trading of basic materials with a chemical industry classification, making paints and printing inks, varnishes, lacquers, adhesives/glues, mortar or ready-mixed concrete. As of the end 2021, Avian employed 1,205 employees. The Company has 3 consolidated subsidiaries and indirect investments in 2 companies.

PT Avia Avian conducted an initial public offering of shares in 2021 and obtained an effective statement from the OJK on November 10, 2021, by offering new shares to the public of 10.0075% of the issued capital. The nominal

value of the shares is Rp. 10,- with an offering price of Rp. 930.- so that the amount of fund raised is Rp. 5.76 trillion. As of December 31, 2021, the market capitalization value of PT Avia Avian Tbk was IDR 57.6 trillion.

Table 4. Highlight of IPO PT Avia Avian Tbk in November 2021

Number of Shares Offered During IPO	6, 200, 000, 000 New Issuance Shares which Represent Ordinary Shares Totaling 10. 0075% from the Paid in Capital after Initial Public Offering
Total number of listed shares	61, 953, 555, 600 shares
Rp nominal per share	Rp 10
Offering price during IPO	Rp 930
Initial offering date	Rp 5, 766, 000, 000, 000
Offering period of new shares	30 November 2021
Listing date in IDX	2-6 December 2021

Source : Prospectus IPO PT Avia Avian Tbk : December 2, 2021

5. RESULTS AND DISCUSSION

PT Avia Avian stated in their prospectus the use of proceeds and the purposes of the IPO, among others is to strengthen the equity structure and liquidity, payment of existing bank loans, and trade payable to suppliers, and buy some additional capital expenditure to increase the production capacity. PT Avia Avian also issued ESOP and MSOP shares to increase employee loyalty, brand, and reputation. These objectives and reasons for IPO are in line with reference to IDX presentation materials on literature.

The research through literature indicated that during the preparation for going public, there were several accounting issues and challenges related to the preparation of financial statements, restructuring, and other internal matters that should be carefully addressed at the preparation stage. Some issues may take time to resolve and potentially have no solution, because they do not meet with the basic principle of accounting principles or breach the capital market regulation. The following accounting issues and challenges were noted during the interview with the key management of Avian, and were addressed through intensive research and preparation with the support of their auditors and legal consultants. Avian demonstrated how they had been able to resolve the accounting issues and challenges and reflect the resolution in the latest audited financial statements as of May 31, 2021, December 31, 2020, 2019, and 2018 which were attached in the prospectus of shares offering for IPO in December 2021.

Table 5. Accounting issues and resolutions in PT Avia Avian Tbk during the IPO process

Issue and Challenge	Resolution and Recommendation
<ul style="list-style-type: none"> ● Authorized Capital and Paid-Up Capital have to be increased before IPO offers new shares issuance to public ● There is a change in nominal share (stock splits) from previously Rp 1, 000,- per share to become Rp 10,- per share ● Impact of the change in nominal shares to the calculation of Earning Per Shares (EPS) 	<ul style="list-style-type: none"> ● The increase in paid- in capital before IPO may be done through (i) fresh injection funds by shareholders or PE or VC; (ii), capitalization of retained earnings by distributing share dividends to existing shareholders; or (iii) acquisition of assets or shares from other groups or third parties. If the acquisition is conducted with parties under common control, the Company should refer to PSAK 38 : restructuring Under Common Control and the impact of the acquisition should be presented retroactively. If the acquisition is conducted with third parties, the reference is PSAK 22 - Business Combination and the impact is presented prospectively. ● Changes in nominal share prices according to PSAK 56 must be approved during the Shareholders' meeting (RUPS) because it changes the Articles of Association (AoA); therefore, the presentation and disclosure in the financial statements must refer to the latest amendments to the AoA. ● The change in nominal share prices will affect the calculation of Earnings Per Share (EPS), and it has to be applied retroactively since prior years presented (PSAK 56). ● In the Avian audit report, it was stated that the latest shareholders' meetings were on 27 August 2021 and 30 August 2021 to approve all the above changes.
<p>The Group accounting policies have not been amended with the latest PSAK and have not been reconciled with accounting policies in subsidiaries level; thus, the consolidation process requires some adjustments to maintain the consistency.</p>	<ul style="list-style-type: none"> ● PSAK has a special rule whenever a new standard is issued, the treatments can be retroactive or prospective. ● There was the issuance of new PSAK 71, 72, and 73 in 2020 which affects the presentation of Financial Instruments, Lease Assets, and Trade Receivable accounts into current and non-current assets. ● The impact of PSAK 71, 72, and 73 has been presented in note 2.b – Changes in Accounting Principles in Summary of Significant Accounting Policy in the audited FS of Avian FY 31 Dec 2020, 2019, and 2018, which stated the amount as previously reported as of January 1, 2020, adjustments made and balance after adoption of PSAK 71, 72, and 73.

Issue and Challenge	Resolution and Recommendation
<p>The presentation of Investment property, fixed assets, and intangible assets has to be assessed every year to identify whether there is impairment or not to reflect the fair value of assets in the balance sheets.</p>	<ul style="list-style-type: none"> ● POJK VIII.G.7 requires presentation of FS using the fair value. As such, OJK requires the third-party evaluation by Independent Appraisal (KJPP) to provide an opinion on the fair value of property, plant and equipment, investment properties, goodwill, and others. ● Avian has appointed KJPP Suhartanto, Budihardjo and Partners and KJPP Iskandar and Partners to prepare asset valuation reports dated August 27, 2021 and February 11, 2021 as stated in Notes 10 and 11 of Avian audited FS with the conclusion of no indication of impairment.

<p>The financial statements for the 3-year period presented in the prospectus were audited by two different auditors.</p>	<ul style="list-style-type: none"> • In the IPO process that presents minimum 3-year financial statements, if the auditors or partners who signed the opinion have exceeded the 3-year threshold on the date of IPO, it is mandatory by OJK to change the signing partner with a new partner. • If there are two auditors involved, the prior year auditors still have to be reappointed because OJK requires the numbers as stated in the Financial Statements or Prospectus that have to be reviewed by the respective auditors and provide a Comfort Letter in the previous year, and they still audit the company's financial statements. • The auditors' opinion from the previous auditor should be reissued with the current date, so the previous auditors must update the subsequent events and disclose if there is new PSAK applied. • In Avian, the external audit firm is KAP Purwanto, Sungkoro & Surya. However, the auditors' opinion for the end of the years December 31, 2020, 2019, and 2018 was signed by Muhammad Kurniawan. To avoid the 3-year mandatory rotation, the auditors' opinion for auditing May 2021 has to be signed by a different partner namely Benyanto Suherman. The audit opinion for the end of the years Dec 31, 2020, 2019, and 2018 has to be re-issued by Muhammad Kurniawan dated September 24, 2021 because of the additional paragraph in the opinion for the going public purpose.
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Table 5. Accounting issues and resolutions in PT Avia Avian Tbk during the IPO process

Issue and Challenge	Resolution and Recommendation
<p>The Issuer that has a significant bank loan must obtain permission or a consent letter from the banks.</p>	<ul style="list-style-type: none"> • The issuers that have bank loans must record these loans in compliance with basic accounting principles : recognition, measurement, presentation and disclosure, including interest rate calculations, classification of current and non-current liabilities, notes on collateral, interest rates, technical ratios, including the obligation to obtain permits. or a consent letter if the company wants to distribute dividends. • Failure to obtain a consent letter can lead to a technical default and the presentation of all bank loans will be classified as current liabilities. • Negotiation with the bankers or bank syndication is a time-consuming process and without the approval from the banks, OJK will not issue an effective letter for IPO. • In Avian all banks agreed to remove negative covenants to distribute dividends as stated in the prospectus Chapter III - Statement of Liabilities.
<p>There is Employee Stock Allocation (ESA) or MSOP before going public.</p>	<ul style="list-style-type: none"> • Companies that distribute ESAs and MSOPs must be accompanied by Independent Actuary and financial consultants to calculate the valuation of share conversion price that must be determined in advance, and the impact of the share distribution on the benefits received by employees should be in accordance with the Job Creation Law (Omnibus Law) issued in 2020 and PSAK 24.

	<ul style="list-style-type: none"> • The details of Employee Stock Allocation in Avian have been fully disclosed in the prospectus and financial statements. •
<p>The legal department has not updated the corporate documents, significant agreement and commitments, document ownership of assets and never reconciles with the accounting and finance departments.</p>	<ul style="list-style-type: none"> • The Legal Division of the Company must periodically update and inform to the Finance and Accounting department about : (i) corporate documents such as Articles of Association (AoA), changes in capital and investment, business scope; (ii) agreement and commitment documents with the banks, creditors, and customers; (iii) ownership of assets in the form of fixed assets, intangible assets, goodwill, trademarks, investment properties, and other assets including assets under construction and other assets. Avian appoints Witara Cakra Advocates / White and Case as the legal consultant, who has issued a clean legal opinion dated November 23, 2021.
<p>Events after balance sheet date</p>	<ul style="list-style-type: none"> • According to PSAK 8, events after the balance sheet date have the impact of adjusting events and non-adjusting events. • Companies must document all events after the balance sheet date and if they have an impact on adjusting events, a correcting entry must be made to reflect on the balance sheet date. • In Avian, the management restricts any significant event after the balance sheet date to avoid excessive disclosures and questions from investors . • The latest audited FS of Avian using the cut off May 31, 2021, only stated one subsequent event related with the acquisition of new subsidiary.

Table 5. Accounting issues and resolutions in PT Avia Avian Tbk during the IPO process

Issue and Challenge	Resolution and Recommendation
<p>Initial Share offerings are also made to foreign investors.</p>	<ul style="list-style-type: none"> • Share offerings to foreign investors from the United States normally use the 144A guidelines and Foreign Investors other than the American normal use of Reg-S regulations. • The main critical thing is the validity period of the Financial Statements for public offerings which is 135 days compared to OJK's 180 days. • Therefore, the Company must appoint the Auditor to conduct another Limited Review of the interim financial statements, so the 135-day deadline can be extended.

The following accounting issues were found in the literature , but they have not become issues in Avian, because they were properly addressed a few years ago during the IPO diagnostic assessments in the planning stage.

Table 6. Other Accounting issues, challenges, and resolutions during IPO preparation

Accounting Issue and Challenge	PSAK Reference	Solution
The Issuer has several subsidiaries and associates which are audited by different Auditors and have different accounting policies which create challenges during the consolidation process.	<ul style="list-style-type: none"> ● PSAK 1 Presentation of Financial Statements and ● PSAK 65 presentation of consolidated financial statements 	The Issuer or Holding Company has to set up group accounting policies, and the policy has to be adopted by all subsidiaries. Any material difference should be reconciled and adjusted during the consolidation process. In the case of new PSAK 71, 72, and 73 which have not been implemented by the subsidiaries, the holding company should assess the materiality impacts. PSAK 1 requires that consolidated financial statements must be prepared with proper group accounting policies that apply to all reporting groups.
Can the profit or loss of a 99.9% owned subsidiary be compensated with the parent company's profit or loss in calculating the current year income tax and/or deferred income tax?	<ul style="list-style-type: none"> ● PSAK 46 Income Tax and deferred tax 	Indonesian tax law does not recognize the calculation of corporate income tax on a consolidated basis; therefore, income tax must be calculated one by one for the parent and all subsidiaries. Therefore, in presenting the consolidated financial statements specifically for taxation, it is necessary to calculate the tax of the parent company and its subsidiaries.

Issues and challenges in other preparations of internal matters

- a) The company needs a strong internal team to execute the IPO roadmap. During the preparation stage, the company needs to set up a Project Management Office (PMO) as the core IPO team that has a strong knowledge base of accounting, internal control, and compliance with the law and corporate governance, financial disclosures, budgeting and forecasting, and investor relations. Based on the interviews with PT Avia Avian Tbk, the key management that supervises PMO team is : (i) Finance director/Chief Finance Officer who is responsible for the transformation of the accounting and finance divisions as well as coordinating internal and external reporting needs; and (ii) Financial controller who has responsibility for coordinating the accounting and finance teams in the closing the book process, and preparing disclosures and information for each financial reporting period.
- b) The scope of works of the IPO core team, among others, is to set up policy and monitor : (i) the company's accounting policies that drive the basis for the preparation of the financial statements; (ii) the frequency of the need for financial reports to be issued - twice a year or four times a year; (iii) the speed of closing the books following the regulations of the capital market

- regulator; (iv) updates of accounting system applications for financial reports; (v) and understanding of POJK regulations.
- c) The PMO for the IPO core team also needs to prepare an equity story related to the company's restructuring plan. "Equity Story" is an explanation of why the company wants to go public, the company's current capital and financial structure, projected capital model before IPO, and explanation about expected fundraising and the use of proceeds from IPO.
 - d) Almost all prospective issuers carry out financial restructuring before going public and prepare financial reports with the guidelines from financial accounting standards (PSAK) in Indonesia. Accounting issues that form the basis for preparing the financial statements and financial restructuring must be prepared in detail so the financial statements will pass the review of the capital market regulator and the due diligence process from the Underwriters.
 - e) Other preparations that should be done during the preparation stage are to make sure IPO readiness assessments through interview and workshops with all stakeholders in the Issuer which include 9 important points to be evaluated, i.e., : (i) strategy; (ii) structure; (iii) taxes; (iv) finance; (v) financial accounting consulting services; (vi) Governance and compliance; (vii) cyber security and systems; (viii) processes, organizations, and people; and (ix) timings.
 - f) If the company provides stock-based compensation to management and employees, the company needs to record the fair value of the stock options in the financial statements.
 - g) The PMO of IPO Core team also needs to pay attention to external parties who assist in the IPO preparation process, which includes: (i) Public Accountant or External Auditors, who are the most important professionals to be appointed, because of their roles in auditing the financial statements and issuing the auditor's opinion on the financial statements; (ii) legal consultants who carry out inspections and research on the legal aspects of the issuer; (iii) appraiser/KJPP, whose profession is ruled in the Minister of Finance Regulation No. 125/PMK.01/2008; (iv) a public notary whose duty is to attend and prepare a notarial deed for all meetings regarding all aspects of the initial public offering of shares; and (v) other professions determined by government regulations, such as actuaries.
 - h) In Avian, the initial public offering is offered not only to investors in Indonesia but also to Foreign Investors in the United States and outside the

United States respectively based on SAS 72, Rule 144A, and Regulation S of the United States Securities Act of 1933, and the validity of financial statements being used for IPO review to Investors in US is only for 135 days (4.5 months), while the OJK regulations allow for 6 months. Therefore, Avian appoints their auditors – KAP Purwantono, Sungkoro, & Surya (PSS) to perform additional limited review for certain accounts in balance sheets and profits.

6. CONCLUSION AND RECOMMENDATIONS

The most important phase in the IPO process is the planning and preparation stages. The planning of the IPO process starts by doing an IPO readiness to assess the level of readiness and diagnose any issues and challenges during the preparation stage on the 9 box assessments. The IPO readiness assessment is a diagnostic tool that can be carried out by conducting workshops and interviews with the internal stakeholders of the Issuers and is monitored by the CFO and Financial Controller as the leader of the PMO. This assessment is useful for knowing the gap analysis with the required regulation and lastly the IPO diagnostic assessment aims to create a work plan/blueprint based on a gap analysis. Based on the interview results, IPO preparation is the most critical because it requires a lot of time, energy, and other preparations in dealing with existing issues and challenges related to accounting in financial statements, financial restructuring, and other issues and challenges outside of accounting.

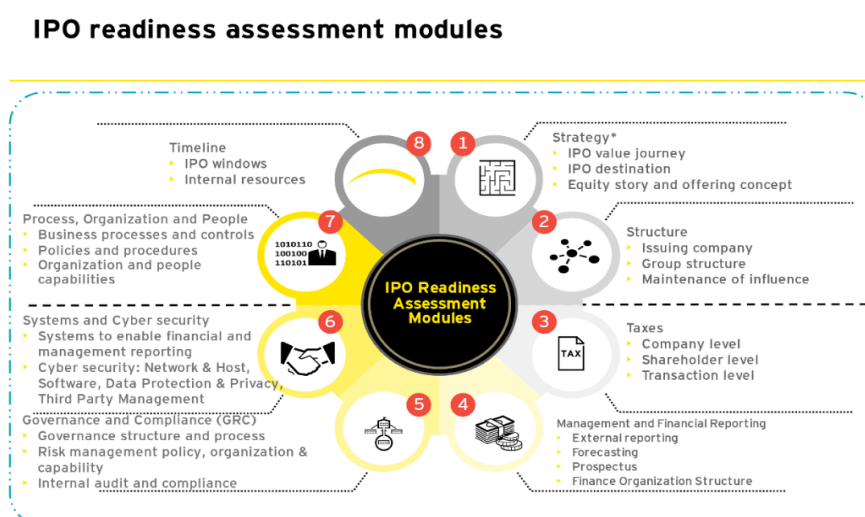


Figure 5. IPO Readiness Assessment Modules

Source: 2021 EY Global Trend IPO report (Q-4) Final

In the planning stage, the three important steps that need to be prepared by prospective issuers are: (i) forming a PMO team (project management officer) who is responsible for handling IPO preparations; (ii) developing a clear and measurable go - public planning strategy to serve as a blueprint for all stakeholders; and (iii) appointing professional supporting institutions that have been directly involved from the start.

The conclusion of the research shows that Avian experienced various issues and challenges during the process of the IPO, but Avian was able to resolve the issues and challenges faced and reflect the solutions in the financial statements to meet the applicable accounting and regulatory standards within a sufficient period, having previously prepared an equity story, conducted an IPO readiness assessment, and prepared a competent internal team and supporting professions, as well as understanding accounting issues and challenges related to financial statements, financial restructuring, and other issues and challenges outside of accounting.

From the research that has been conducted in Avian, it is important that any company plan for going public (the Issuer) must have a solid team under Project Management Office (PMO) who is responsible to perform IPO readiness assessments. The readiness will identify and map the gap analysis, and prepare a blue-print to prepare the solutions to the issues and challenges. Other than conducting IPO readiness assessments, the prospective Issuer must have an equity story that will be used as a road map to justify the purpose of going public. The equity story is mainly driven by the business strategy, share ownership structure, expected valuation of the company, fund raising, and the use of proceeds. With the recent development of potential companies going public in the future, which include State Owned Enterprises (SOE), start-up companies, tech-based industries, the IPO diagnostic assessments and preparation of Equity Story will become more complicated and challenging. These newcomers of *Soonicorn* (soon to become unicorn) will have different value propositions, different valuation where maybe Indonesian capital market regulation, accounting standards, and taxation law are left behind to anticipate the wave of newcomers on the IPO arena.

This study can be used as starting materials for the lesson to learn about the IPO process on the planning and preparation stages. However, with the rapid developments of the new comers coming for IPO, there are more studies and research that have to be conducted for these *Soonicorn*, and we have to expand the research to analyze the issues and challenges for post-IPO. Since the capital market is a strategic venue for fund raisings, the next research

should focus on the source of references for prospective Issuers in all of the processes of IPO from planning to post-IPO.

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