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ABSTRACT

This research analyses the accounting treatment concerning aircraft lease contract modifications post the Suspension of Payment (PKPU), focusing specifically on go-forward contracts featuring three concurrent modifications. These modifications include the partial forgiveness of past-due lease liabilities, reduction of future lease payments, and extension of lease periods. The research uses a case study approach with PT IB as the research object. Data sources include primary data from interviews and reviews of contracts and PKPU decisions, together with secondary data in the form of entity financial statements, PSAK 71 “Financial Instruments”, PSAK 73 “Leases”, IFRIC publication IFRIC publication “Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)”, and other secondary information. This case study shows that the accounting treatment of the partial forgiveness of past due lease liabilities under the provisions of lease modification under PSAK 73 is appropriate. The forgiveness of lease liabilities cannot be recognized in the current year's income statement because the lease forgiveness is not voluntary, instead arising from exclusive negotiations between PT IB and the lessors. This forgiveness is a result of a court decision that is legally binding and must be adhered to by all parties. The accounting treatment for reduction of future lease payment and extension of lease period have also been accounted for appropriately.

Keywords: *PKPU, PSAK 73, Lease Accounting, Lease Contract Modification*

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1. INTRODUCTION

Leasing is used by almost all sectors, especially in the retail and aviation industries, and has been recognised as an important source of funding for various assets, such as laptops, aircraft and real estate. Due to the high investment involved and long lifespan of aircraft (25 years or more), most companies chose to lease instead of buy (Bourjade, Huc, & Muller-Vibes, 2017). The proportion of leased aircraft worldwide has experienced dramatic growth in recent years, increasing from 0.5% in 1970 to 40% in 2015. Meanwhile, nearly fifty percent of Airbus deliveries are financed by lessors (Bourjade et al., 2017).

PT IB, a subsidiary of PT NR, is a company primarily engaged in the domestic aviation industry in Indonesia. In conducting its business activities, PT IB, as a lessee, enters into lease contracts with lessors for the procurement of its aircraft fleet. Prior to the implementation of PSAK 73 "Leases", PT IB accounted for its leases using the operating lease method, in which it did not recognise assets and liabilities in its financial position statement. Instead, lease transactions were directly recorded in the income statement; in this case, the off-balance sheet. With the implementation of PSAK 73 in 1 January 2020, PT IB now records its aircraft lease contracts using finance lease contracts and recognises these leases in its financial statements as an on-balance-sheet.

In 2020, the Covid-19 outbreak was declared a global pandemic by the World Health Organization, leading to a significant negative impact on the global economy. The aviation industry in particular was seriously affected. The International Civil Aviation Organization reported that the pandemic resulted in a 50% reduction in airline seats, a 60% decrease in passengers (equivalent to 2.703 billion), and an estimated loss of \$372 billion in airlines' gross passenger operating revenue in 2020 compared to the previous year. In response to Covid-19, the Indonesian government implemented various regulations to restrict travel, including air transportation, in order to prevent its spread.

These government regulations put financial pressure on PT IB and PT NR, resulting in the financial incapacity to fulfil their obligations to creditors such as lessors, banks and other companies. On October 2021, a PKPU (Suspension of Debt Payment Obligations) petition was filed against PT NR and PT IB. The Commercial Court Judge of Central Jakarta granted the PKPU petition and declared PT NR as a Temporary PKPU, with the decision read in court on 9 December 2021.

PT NR has undergone the Temporary PKPU process and its extensions, as provided through the permanent PKPU legal process, with schedules and agendas determined by the Administrator Team and Supervising Judge. A settlement plan was presented to creditors during a creditors' meeting held on 17 June 2022 at the Central Jakarta Commercial Court, where verified creditors approved the proposed Settlement Plan by PT NR. The plan was homologated and approved by the Central Jakarta Commercial Court on 27 June 2022 ("Homologation Decision").

The Homologation Decision regarding PT IB aircraft lease contracts includes the following key points:

1. The lessor has the option to terminate or continue the lease (go-forward), with the possibility of extending the contract for 4 years from the homologation date, or 18-20 years from the aircraft manufacturing date.
2. From 27 June 2022, the lease rate was reduced. A standardised minimum lease rate for all lessors was implemented, taking into account factors such as the date of manufacture, aircraft type, and remaining lease period. This change eliminated the previous practice of negotiating lease payments between PT IB and the lessors.
3. From 9 December to 31 December 2022, PT IB was granted a grace period for payment based on actual aircraft flight hours (power-by-hour, or PBH) instead of a fixed monthly rate. PT IB was not required to make fixed monthly lease payments during this period.
4. For overdue lease liabilities as of 9 December 2021, the lessors agreed to provide an 80% haircut, resulting in PT IB paying only 20% of its overdue lease liabilities.

The Homologation Decision practically modifies the lease contract provisions and has accounting implications for PT IB. Lease extensions, lease relief such as the reduction in minimum lease rates, the provision of grace periods for lease payment using the PBH mechanism, and the 80% haircut on overdue lease liabilities will change the value of assets and liabilities recognized in PT IB's financial statements, as the lease contracts have been modified from their original terms.

IFRS 16, including Amendment to IFRS 16 "Covid-19-Related Rent Concessions" does not differentiate between types of modifications or reliefs. IFRS 16, as the main standard governing leases, provides a broad definition of lease modifications, in which any changes in the contract can be considered as modifications, such as changes in payment timing (such as deferring payments for a few months), forgiveness of a certain amount of overdue lease liabilities by the lessee, or changes in the remaining lease payment amount (Teixeira, 2021). However, not all modifications necessarily fall within the scope of IFRS 16. Lease modifications can also fall under the scope of IFRS 9 "Financial Instruments". Granting lessees relief from lease payment obligations can also be considered as forgiveness of lease receivables by the lessor, releasing the lessee from the responsibility for those obligations, as stated in IFRS 9 Paragraph 3.2.2a (Teixeira, 2021).

In line with Teixeira (2021), observations from the European Securities and Markets Authority (ESMA, 2021) also indicate differences in accounting treatment among various lessors and lessees in Europe regarding lease modifications, in which the only modification is the forgiveness of overdue lease liabilities without changing the scope or other terms in the contract. On the lessee side, there are three views on the accounting treatment of forgiven overdue lease liabilities. First, following the provisions of IFRS 16 paragraph 45(c), the lessee will remeasure the lease liabilities by discounting revised lease payments using the revised discount rate as of the modification date; i.e., the date of lease liability forgiveness. Second, following the scope of IFRS 9 Paragraph 2.1(b)(ii) where lease liabilities recognised by a lessee are subject to the derecognition requirements in paragraph 3.3.1 of IFRS 9, the lessee follows the derecognition of financial liabilities as per Paragraph 3.3.1 of IFRS 9 and recognises the impact of forgiven lease liabilities in the income statement, therefore, no revision of the discount rate is required. Third, lessees

assess that there is an option to choose between IFRS 9 or IFRS 16 due to the lack of certainty in accounting treatment.

These observations from ESMA have become a topic of discussion in the IFRS Interpretations Committee (IFRIC) since March 2022 in an attempt to provide clarification on the ambiguity of practices undertaken by lessors and lessees regarding whether lease concessions should fall under the scope of IFRS 9 in relation to derecognition of financial assets or liabilities on the lessor's or lessee's side, or IFRS 16 in relation to lease modifications.

The explanations above show interaction between IFRS 16 and IFRS 9, or PSAK 73 and PSAK 71 that is highly relevant to the situation experienced by PT IB. If the above contract changes experienced by PT IB are viewed from the perspective of PSAK 73, it can record these as adjustments to lease liabilities and right-of-use assets, in which lease liabilities and right-of-use assets are seen as linked transactions (Teixeira, 2021). However, if the changes are viewed from the perspective of PSAK 71, there will be changes in PT IB's cash flows related to the forgiven lease liabilities recognised in the period when the forgiveness is received (PSAK 71 Paragraph 3.2.2a). In other words, changes in lease liabilities are not always related to right-of-use assets.

The above conditions create room for interpretation for PT IB, which needs to analyse and determine the accounting policy that best represents the true situation. No previous research has discussed the accounting policy selection for lease modifications when there is room for interpretation, particularly modifications that occur due to the impact of Covid-19. The examples provided in PSAK 73 primarily cover singular lease modifications, except for Example 18 which is modifications that both add and reduce the lease scope. Furthermore, the lease modifications addressed by the IFRIC Interpretations Committee's publication "Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)" in October 2022 also focus on singular modifications, specifically the forgiveness of overdue lease liabilities. Neither PSAK 73 nor the IFRIC interpretations explicitly explain how lessees should account for modifications when forgiveness of overdue lease liabilities is combined with other modifications, as in the situation experienced by PT IB. PT IB has been subject to combined modifications, namely partial forgiveness of overdue lease liabilities, extension of the lease term, reduction in lease rates, and the provision of a grace period in the first year of the modification.

This study aims to examine how PT IB determines whether the accounting treatment for lease contract modifications after the Suspension of Debt Payment (PKPU) should be accounted for under PSAK 73 or PSAK 71. Specifically, the focus is on the go-forward contracts that grant an 80% reduction in overdue lease liabilities, a reduction in lease rates, and an extension of the lease period. Furthermore, the study evaluates whether the accounting treatment selected by PT IB has effectively generated reliable and impartial financial information for the company stakeholders.

2. LITERATURE REVIEW AND PREVIOUS STUDIES

2.1 SUSPENSION OF PAYMENT

The suspension of debt payment is regulated in Articles 222 to 294 of the Bankruptcy Law (UUK). This PKPU is closely related to the debtor's inability to pay their debts to creditors (insolvency). PKPU is a legal procedure that grants the right to any debtor who is unable, or anticipates being unable, to fulfil their overdue and collectible debts to request a suspension of debt payment in order to propose a settlement plan that includes an offer to pay all or part of the debts to concurrent creditors.

PKPU serves as a legal and economic mechanism provided for debtors to resolve their financial difficulties and continue their lives. The granting of PKPU to debtors is intended to provide those who are insolvent with an opportunity to propose a settlement plan, which may involve an offer to fully or partially pay their debts or to restructure (reschedule) their debts. The PKPU decision is divided into two stages:

- a) Temporary PKPU, decided by the Commercial Court and granted for a maximum period of 45 days, and
- b) Permanent PKPU, granted for a maximum period of 270 days, if by the 45th day or the creditors' meeting, they have not been able to vote on the proposed plan.

2.2 LESSEE ACCOUNTING AND LEASE MODIFICATION IN PSAK 73

The Statement of Financial Accounting Standard 73 (PSAK 73) on Leases regulates the recognition, measurement, presentation, and disclosure concepts in lease accounting. PSAK 73 aims to ensure that both lessors and lessees provide relevant and accurate information about lease transactions. Financial statement users will rely on this information to assess the impact of lease transactions on the financial position, financial performance, and cash flow statements. It has been effective since January 1, 2020.

PSAK 73 introduces a single accounting model for lessees, who are required to recognise assets and liabilities for all lease contracts with lease terms exceeding one year, except for low-value assets. Lessees will recognise right-of-use assets that represent their right to use the underlying assets and recognise lease liabilities that represent the obligation to make lease payments to the lessor. On the commencement date, lessees recognise right-of-use assets and lease liabilities measured at the cost of acquisition, which include:

- a) Initial measurement of lease liabilities.
- b) Payments to the lessor on or before the commencement date, net of lease incentives.
- c) Initial direct costs.
- d) Estimates of dismantling, removal, restoration, and relocation costs associated with the asset and the site where the asset is located.

Lessees will recognise depreciation of right-of-use assets in the income statement and record interest expenses on lease liabilities. Cash flow presentation for lease payments will follow the provisions of PSAK 2: Statement of Cash Flows. At the initial measurement, the lessee will recognise right-of-use assets and lease liabilities based on the present value of lease payments. These payments include both non-cancellable ones and

ones to be made in optional periods if the lessee is reasonably certain to exercise or not to exercise the lease extension option.

In certain situations, contracts may undergo changes or modifications. Based on PSAK 73, lease modifications are defined as changes in the (i) scope of the lease, or (ii) payments (consideration) for the lease that are not terms and conditions specified in the original lease contract. Lease modifications include additions or terminations of the right to use one or more underlying assets, or contractual extensions or reductions of the lease term. In summary, the accounting treatment for lease modifications under PSAK 73 can be seen in Diagram 1.

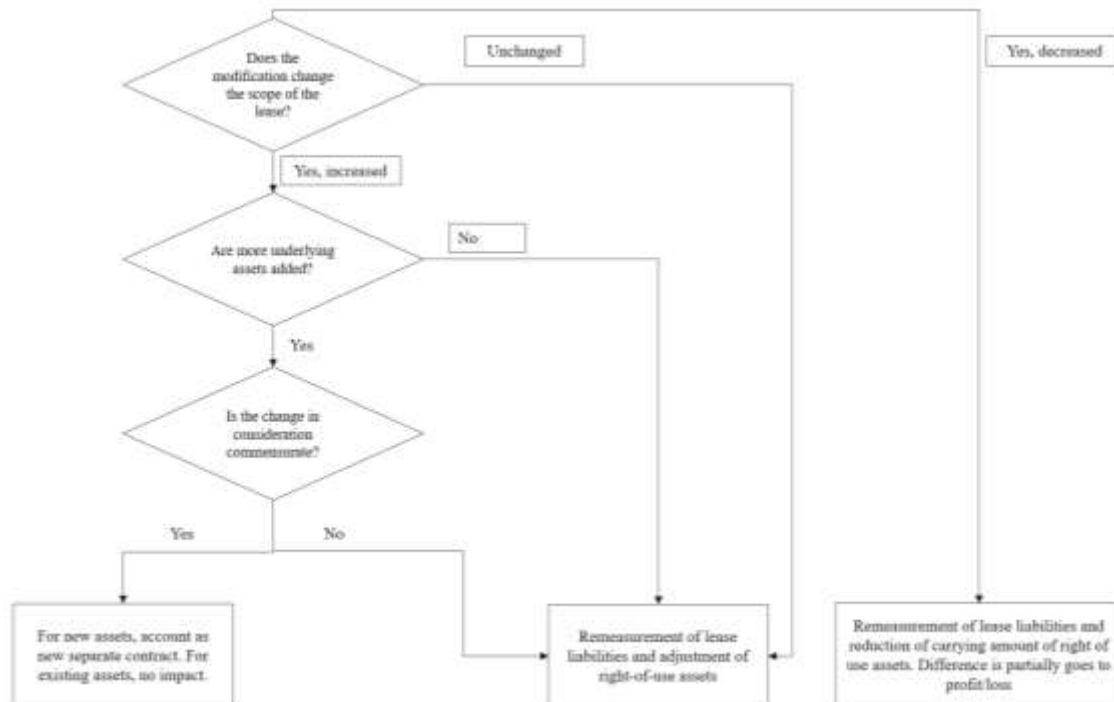


Diagram 1. Lease modification decision tree

Based on the diagram in accordance with PSAK 73 Paragraph 44, all lease modifications are considered non-separable, except when two conditions are met:

- a. The lease scope is increased by adding the right to use one or more underlying assets.
- b. The lease consideration is increased by an amount equivalent to the standalone price for the increase in scope, reflecting specific contract terms.

If these two conditions are not met, the lessee treats the lease modification as a non-accounted separate lease. On the effective date of the modification (the date when the lessor and lessee agree to modify the lease contract), the lessee allocates the new consideration, determines the new lease term, and remeasures the lease liability using the new discount rate for the remaining lease term. Based on PSAK 73 Paragraph 46, the lessee records the results of this remeasurement by:

- a) Reducing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for modifications that decrease the

lease scope. The lessee recognises any gain or loss associated with the partial or full termination in the income statement.

- b) Making adjustments related to the right-of-use asset for all other lease modifications.

In May 2020, the International Accounting Standard Board (IASB) issued Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases to provide an optional relief to lessees from applying IFRS 16's guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. In March 2021, the IASB issued Covid-19-Related Rent Concessions beyond 30 June 2021 to extend the relief period by another year. These amendments have been adopted in Indonesia through Amendment to PSAK 73. However, the practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions described in IFRS 16 paragraph 46B are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- c) There is no substantive change to other terms and conditions of the lease.

2.3 PREVIOUS RESEARCH

The implementation of IFRS 16 or PSAK 73 is a worthy research topic due to the complexities arising from the new requirements, as well as the significant impacts on companies' financial performance. Morales-Díaz et al. (2018) examined the impact of the implementation of IFRS 16 on the financial ratios of 646 publicly traded companies in Europe. They found a significant impact, particularly on solvency ratios, which depend on the intensity of operating leases in the sector in which companies operate. The impact on profitability ratios was inconsistent across sectors.

Veverková (2019) conducted research on the significance of implementing IFRS 16 on the financial statements and financial ratios of 15 airlines in Europe, finding a significant increase in total assets and non-current liabilities, but a decrease in shareholder equity. The implementation of IFRS 16 also increased DER, DEA, ROE and RO.

Susanti et al. (2021) investigated the impact of implementing PSAK 73 on the financial statements and ratios of the aviation industry in Indonesia. They found that the implementation resulted in a decrease in return on assets (ROA), solvency, and asset utilization efficiency, while liquidity ratios and return on equity (ROE) increased.

Almubaydeen et al. (2022) conducted a study to examine the impact of applying IFRS 16 to lease concessions related to Covid-19 on the financial performance of Royal Jordanian, the national airline of Jordan. It was found that the implementation had a significant impact on the current ratio, quick ratio, cash ratio, and debt-to-asset ratio (DEA), but an insignificant impact on the debt-to-equity ratio (DER).

Baigutanova et al. (2023) examined the influence of IFRS 16 implementation on the profitability of 357 airline companies in 59 countries. They found that off-balance sheet lease capitalisation based on IFRS 16 provided more relevant information than IAS 17 and had a significant positive impact on company profitability.

The studies above focus on examining the impact of IFRS 16 implementation on companies' financial performance. However, they do not address lease concessions and the accounting policy selection, as are discussed in this research. No previous research has had a similar scope to that of this study, which considers the accounting treatment of lease modifications when there is more than one modification, and involves assessment of whether the modifications fall under PSAK 73 "Lease" or PSAK 71 "Financial Instrument". This presents an opportunity for this study to provide a more practical view on how entities should account for such modifications.

3. RESEARCH METHODS

Case study research using a qualitative approach was employed. Both primary and secondary data were collected. The primary data were obtained from informants, namely Mrs. X (VP Accounting) and Mrs. Y (Senior Manager Accounting), who had been in charge of the lease accounting since it was first implemented on 1 January 2020 up until the PKPU process. Data such as the value of right of use assets and lease liabilities before PKPU; the homologation decision confirming the partial forgiveness of past-due lease liabilities; the new lease rates and lease periods; and relevant documents such as aircraft lease contracts and PT IB's financial reports were processed and analysed to obtain the financial impact of accounting policy selection to PT IB's financial statements. In addition, interviews with the informants were conducted to understand the PKPU process and their opinions. The interviews were conducted with predetermined questions to obtain relevant and in-depth information, thus allowing qualitative data and information relevant to the research to be acquired. The literature review was conducted through the reading of books, articles, journals, previous research, relevant accounting standards, and IFRIC publications.

Analyses focused on a specific contract, namely PK-GXX, which provides an overview of the overall lease contract modifications after PKPU. The PK-GXX contract underwent three simultaneous modifications, namely the forgiveness or 80% haircut of overdue lease liabilities; a reduction in the lease rate; and an extension of the lease period. These modifications will be discussed separately due to the different analytical bases used to address each. Regarding the forgiveness of the 80% haircut of overdue lease liabilities, the IFRIC publication on Lease Forgiveness published in October 2022 was utilised, which specifically discusses the interaction between PSAK 71 and PSAK 73. On the other hand, for the modifications involving the reduction in the lease rate and extension of the lease period, reference was made to the provisions of lease contract modifications under PSAK 73 (refer to Diagram 1.1) as well as Example 18 of PSAK 73 - "Modification that Adds and Reduces the Lease Scope."

4. ORGANIZATIONAL PROFILE

PT IB was established in 2001 by PT NR as a strategic business unit to serve low-cost airline activities. It operates over 50 aircraft, including A320s, A330s and ATRs, on more than 90 routes to 40 cities in Indonesia. PT IB generates revenue from both scheduled and non-scheduled flights, primarily from passenger transportation, cargo transportation, seat reservations, excess baggage fees, and charter flights. In the last 5 years, PT IB accounted for averagely 15%-20% of total domestic passengers carried per year, with 70% of revenue from passenger transportation, 20% from cargo transportation, and 5% from charter flights.

According to PT IB's 2020 and 2021 Annual Report, PT IB's revenue fell by around 50% in 2020 compared to 2019 due to the Covid-19 pandemic, with a 54% decline in passenger volume. As of 31 December 2021, PT IB had not yet recovered its pre-pandemic revenue levels. The pandemic and travel restrictions resulted in significant financial losses for the company, with net losses of \$306 million and \$357 million in 2020 and 2021 respectively. These losses impacted its operations, liquidity and ability to meet financial obligations to suppliers such as fuel providers, airport operators, maintenance and repair services, inspection services, and aircraft lessors.

As of 31 December 2021, PT IB's current assets were \$37.5 million and current liabilities \$1 million, resulting in a current ratio of 0.037, indicating insufficient liquid assets to meet short-term obligations. Its financial statements mainly consist of aircraft leasing activities according to PSAK 73. Fixed assets and right of use assets include both owned and leased aircraft and non-aircraft assets, together with restoration assets. Short- and long-term lease liabilities originate from aircraft and non-aircraft leases. PT IB also recognises estimated liabilities for aircraft return and maintenance costs based on commitments for restoration according to lease agreements, considering the existing aircraft fleet and long-term maintenance schedule.

Together with the parent company, PT NR, PT IB participated in the PKPU (Suspension of Debt Payment Obligation) filed by creditors because both leased aircraft from the same lessor. In the PKPU process, negotiations with the lessor regarding the aircraft lease contract were successfully concluded at the end of June 2022. Among the PKPU agreements were that some contracts continued (go-forward) with an extended lease period; an 80% haircut or forgiveness on overdue payment obligations that were not yet paid to the lessor were granted; and there was a reduction in the aircraft lease rate.

5. RESULTS AND DISCUSSION

5.1 ACCOUNTING TREATMENT FOR OVERDUE LEASE LIABILITIES HAIRCUT

Based on the Homologation Decision of 27 June 2022, all lessors agreed to provide a haircut of 80% on the lease liability due on 9 December 2021. The lease contract for the aircraft registered as PK-GXX is one of the 57 aircraft lease contracts that were continued (go-forward) based on the decision. PK-GXX has been leased from XYZ Inc, a company domiciled in France, since 2013 with a lease term of 20 years, which expired in May 2023.

Under this lease, PT IB is required to pay a fixed rate of \$200,000 per month throughout the lease term. Based on the homologation decision, PT IB and XYZ Inc agreed to changes several lease conditions. Table 5.1.1 shows a summary of the lease contract details for PK-GXX before and after the modification:

PK-GXX	Before Modification	After Modification
Lease liability due on 9 December 2021	Fully payable	Haircut by 80%. PT IB only required to pay 20%
End of lease term	May 2023	May 2033
Fixed monthly lease rate	\$200,000	\$150,000
Monthly fixed rate	\$200,000	\$150,000
Grace period with power-by-hour mechanism	None	9 December, 2021 – 31 December, 2022

Table 5.1.1 Summary of PK-GXX Contract Modification

The 80% forgiveness or haircut on overdue lease liabilities as of 9 December 2021 met the definition of lease modification according to PSAK 73, since forgiveness is a consideration change that was not part of the original terms and condition of the lease. On this basis, PT IB's management recorded the 80% forgiveness as a direct adjustment to the right-of-use asset, which reduced its carrying value. Therefore, there was no impact on the current year's profit or loss.

However, forgiveness of a portion of lease payments can also be viewed from the perspective of PSAK 71 regarding the derecognition of financial liabilities. On 10 April 2020, IFRIC issued educational material regarding accounting for Covid-19-related lease concessions and IFRS 16 due to increased changes in lease payment mechanisms between lessees and lessors as a result of the pandemic. In this publication, if a change in lease payments results in the derecognition of a portion of the lessee's previously determined obligations under the contract, the lessee will consider whether the criteria for derecognition of a portion of the lease liability as stated in paragraph 3.3.1 of IFRS 9 Financial Instruments have been met.

Furthermore, in October 2022 IFRIC also issued a publication with the title "Lessor Forgiveness of Lease Payments (IFRS 9 'Financial Instruments' and IFRS 16 'Leases')", which provides clarification on the interaction between PSAK 71 "Financial Instruments" and PSAK 73 'Leases' regarding how lessees account for certain lease concessions based on IFRS 9 and IFRS 16. The lease concession discussed in this publication is one in which the only change in the lease contract is the lessors' forgiveness of certain lease payments that have become due from the lessee, some of which have been recognised by the lessors as operating lease receivables (and as lease income), while others have not (future lease payments). According to IFRIC, lease payments that have become due contractually from the lessee and have been recognised by the lessor as operating lease receivables must apply the derecognition and impairment requirements (Expected Credit Losses - ECL) in IFRS 9. Therefore, on the date the concession is granted by the lessors, lessors remeasure the ECL on lease receivables (recognising the impact on the income statement) and derecognise the lease receivables and the ECL provision. On the other hand, lease payments that have not yet become due will be recognised as a new lease from the date the lease concession is

granted, taking into account prepayments or accrued lease payments related to the original lease as part of the lease payment for the new lease. During the lease period, lessors will recognise the lease payments as revenue on a straight-line or other systematic basis.

Subsequently in March 2023, the IASB Staff published a Paper on the project “Potential annual improvements - Lessee accounting for lease payments forgiven (IFRS 9 and IFRS 16)” for discussion at the IFRS Committee public meeting. This paper aims to discuss how the lessee records the forgiveness of part or all of the past due rental obligations provided by the lessor. In line with the accounting treatment by lessors as discussed in October 2022 publication, this paper confirms that the IFRIC agrees with the view that the IASB needs to amend IFRS 16, by issuing changes to the scope of leases which are solely the termination of part or all of the lessee's lease debt from the scope of IFRS 16, because this change is within the scope of IFRS 9 Paragraph 3.3.1 concerning Derecognition of Financial Liabilities. The IFRS Interpretation Committee has not yet finalized the Agenda Decision on this matter, and the IASB has not yet published Annual Adjustments to IFRS 9 and IFRS 16, however the IFRS Interpretation Committee has agreed to submit the following 2 changes to the IASB, namely:

- a) Amendment to the definition of “Lease Modification” in Appendix A of IFRS 16, which will add the following sentence “For a lessee, a change that results solely in a lease liability (or a part of it) being extinguished in accordance with IFRS 9 is not a lease modification”.
- b) Amendment to Paragraph 2.1(b)(ii) of IFRS 9 to add a cross-reference to Paragraph 3.3.3 of IFRS 9, to read “lease liabilities recognized by a lessee are subject to the derecognition requirements in paragraphs 3.3.1 and 3.3.3 of this Standard”.

With this amendment plan, then:

- a) The lessee will apply the requirements for derecognition of a financial liability for a reduction in liabilities that is solely due to the termination of part or all of the lease obligations that have matured; and
- b) The lessee will apply the lease modification provisions under IFRS 16 to all other changes that meet the definition of lease modification.

Although based on IFRIC publications there is a conclusion that partial or full forgiveness of past due lease liabilities can be recognized in the profit and loss statement when the forgiveness is granted, this cannot be applied to PT IB because forgiveness by the lessor through the PKPU process is not a voluntary forgiveness. Negotiations regarding forgiveness do not exclusively involve PT IB as the lessee and its lessors, but involve the intervention of the Court. Forgiveness of 80% is a Court decision through the coercive PKPU process. The court decision sentences PT IB and all creditors and parties mentioned in the Homologation Plan to submit to and comply with and implement the contents of the Homologation Agreement.

Based on the explanation above, forgiveness of 80% of the lease liability due by the lessor must be recognized according to the lease modification provisions according to PSAK 73. Management has recorded this modification appropriately. The impact of forgiveness for the PK-GXX contract can be seen in table 5.1.2. below:

Description	Management's view (USD)		
	Right of use assets	Lease Liabilities	Profit/Loss
Overdue lease liabilities, as of the modification date	-	(2,900,000)	-
Outstanding lease liabilities, as of the modification date	-	(8,900,000)	-
Right-of-use assets, as of the modification date	5,900,000	-	-
Total before modification	5,900,000	(11,800,000)	-
(Less)/added with:			
80% of overdue lease liabilities forgiven by the lessee	(2,320,000)	2,320,000	-
Ending balance of lease liabilities after modification	3,580,000	(9,480,000)	-

Table 5.1.2 Impact of forgiveness of past due lease liabilities
(Processed by the author)

However, it is important to understand that the 80% forgiveness of overdue lease liabilities was made concurrently with another two modifications, the reduction in future lease payments and the extension of the lease period. Assessment of these two modification is further discussed in section 5.2.

5.2 ACCOUNTING TREATMENT FOR GO-FORWARD CONTRACTS WITH REDUCED FUTURE LEASE PAYMENTS AND EXTENDED LEASE PERIODS

The PK-GXX contract underwent three concurrent modifications: forgiveness of 80% overdue lease liabilities; a reduction in future lease payments; and an extension of lease periods. Essentially, the impact of the court-approved decision on the lease contract for PK-GXX aircraft meets the definition of lease modification due to changes in its scope, including the extension of the lease period and a reduction in contract consideration. The accounting treatment for modifications involving both additions and reductions in the lease scope can refer to PSAK 73 Example 18 - Modifications that both add and reduce the lease scope. However, before determining the accounting treatment for this modification, it needs to be determined whether it is a separate or non-separate lease modification.

The management of PT IB considered several facts to determine whether the modification to the PK-GXX contract is a separate lease modification or not. Based on the court-approved decision, there are three types of lessors: (1) those who terminate the aircraft lease contract on the homologation date; (2) those who continue the lease contract without an extension of the lease period; and (3) those who continue the lease contract with an extension of the lease period. However, there is no difference in treatment in relation to the new terms and conditions for lessees who terminate or continue the contract with PT IB. In addition, there is a clause in the Settlement Plan stating that the voting value for creditors' collection is calculated on the assumption that the existing contracts will be terminated on the homologation date. This indicates that all initial lease contracts have essentially been terminated.

Therefore, there is a consideration to record post-PKPU changes to the terms and conditions of the PK-GXX lease contract as a separate lease modification, in which all remaining lease liabilities and right-of-use assets

must cease to be recognised, and the difference should be recorded in the income statement on the lease modification date. Furthermore, PT IB will record new right-of-use assets and lease liabilities based on the new lease period and rates or contract consideration, using the revised discount rate on the lease modification date.

However, management has decided to account for these modifications as a non-separate lease modification due to the failure of modifications to meet the requirements of PSAK 73 Paragraphs 44-46. PT IB did not have addition of underlying assets since the assets being used remained the same, namely PK-GXX.

As shown in Diagram 2, the impact of the homologation decision on the PK-GXX aircraft lease contract essentially meets the definition of lease modification. The agreement for the new PK-GXX lease contract was negotiated during the PKPU process, along with the forgiveness for overdue lease liabilities, without the addition of underlying assets. Similar to the management assessment, PT IB continues to lease and utilise the same underlying asset, namely PK-GXX. Although the contractual legal agreement was terminated by the homologation decision, in essence the new terms and conditions in the post-PKPU lease contract constitute a modification of the existing one, rather than a termination. The non-fulfillment of the requirements set out in PSAK 73 Paragraphs 44-46, which involve the addition of underlying assets, indicates that the PK-GXX modification is not recorded as a separate lease. Accounting treatment for modifications that both add and reduce the lease scope at the same time can refer to Example 18 in PSAK 73.

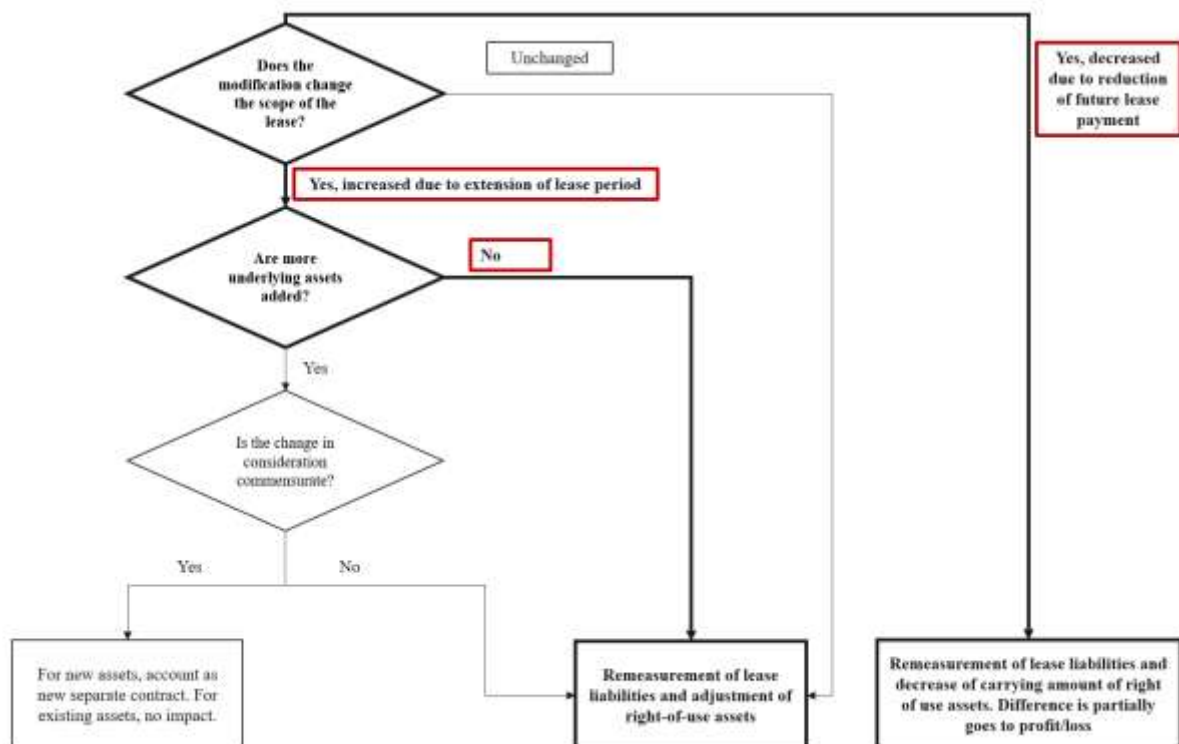


Diagram 2: Identification of Types of Modification in PK-GXX Lease Contracts (Processed by the author)

Based on PSAK 73 Paragraphs 44-46, a lessee shall account for a lease modification as a separate lease if two conditions are met, as shown in Table 5.2.1.

Condition	PK-GXX	Conclusion
The modification increases the scope of the lease by adding the right to use one or more underlying assets.	The agreement for the new PK-GXX lease contract was negotiated during the PKPU process along with compensation for overdue obligations, with no addition of underlying assets. Essentially, PT IB continues to lease and use the same underlying asset, PK-GXX. Although the legal contractual contract has been terminated with the homologation decision, in essence the new terms and conditions of the post-PKPU lease contract constitute a modification of the existing lease contract, not a termination.	Not met
The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.	The increase in the lease scope is not followed by an increase in lease consideration. Instead, the lease consideration has decreased according to the agreement of all the lessors.	Not met

Table 5.2.1 Analysis of the determination of the type of modification for the PK-GXX lease (processed by the author)

Since the two conditions above are not met, PT IB shall not account for the modifications as a separate lease. For PK-GXX, the form of modification and its accounting implications according to PSAK 73 are shown in Table 5.2.2.

Modification	PK-GXX	Accounting
Change in lease payments.	The lease rate is reduced from \$200,000 per month to \$150,000 per month.	Reduction in the scope of the lease, resulting in a reassessment of the lease liability adjusted against the right-of-use asset on the modification date.
Change in lease scope through lease extension.	The lease period is extended, from its previous end date in 2023 to a new end date in 2033.	Increase in the lease scope, resulting in a reassessment of the lease liability adjusted against the right-of-use asset on the modification date.

Table 5.2.2 Determination of accounting treatment for non-separable lease modifications for PK-GXX (processed by the author)

Based on Table 5.2.2, and in correspondence with PSAK 73 Paragraf 40 regarding reassessment of the lease liability, PT IB must reassess its existing lease liabilities (remeasure the lease liability) by discounting the revised lease payments using a revised discount rate since there is a change in the lease term. PT IB shall determine the revised lease payments on the basis of the revised lease term.

By combining the forgiveness of past due rental liabilities as discussed in Section 5.1, it is concluded that Management has appropriately recorded the

modification of go-forward lease contract with an extension of the lease period and a reduction in the lease payment without any addition to the underlying asset. The lessor's forgiveness of 80% of the past due rental obligations has also been recorded appropriately because the forgiveness is not a voluntary forgiveness. The impact of modifications to the PK-GXX contract is shown in Table 5.2.3 .4 below.

Description	Management view (USD)		
	Right-of-use Assets	Lease Liabilities	Profit / Loss
Overdue lease liabilities, as of the modification date.	-	(2,900,000)	-
Outstanding lease liabilities, as of the modification date.	-	(8,900,000)	-
Right-of-use assets, as of the modification date.	5,900,000	-	-
Total before modification	5,900,000	(11,800,000)	-
(Less)/add with			
80% of overdue lease liabilities forgiven by the lessee.	(2,320,000)	2,320,000	-
The difference between the outstanding lease liability and the lease liability with new rates and terms, based on the incremental interest rate (\$8.9 million - \$16.5 million).	7,600,000	(7,600,000)	-
Ending balance of lease liabilities after modification	11,180,000	(17,080,000)	-

Table 5.2.3 Impact of the lease contract modifications for PK-GXX
(processed by the author)

6. CONCLUSION AND RECOMMENDATIONS

The objective of this research was to analyse the accounting treatment of aircraft lease contract modifications post Suspension of Payment (PKPU), specifically for a continued lease contract (go-forward lease contract) with partial forgiveness of past-due lease liabilities, a reduction in future lease payments, and an extension of the lease period. Analysis of the partial forgiveness of past-due lease liabilities is separate from the reduction of future lease payments and the extension of the lease period due to differences in the use of the framework.

It was found that the management's accounting treatment for the 80% forgiveness of overdue lease liabilities is appropriate. Management adjusts the forgiven portion of lease liabilities as a deduction of right-of-use assets in accordance with the lease modification provisions according to PSAK 73. This forgiveness cannot be recognized in the statement of profit or loss according to the provisions of PSAK 71 regarding derecognition of financial liabilities and the IFRIC Publication "Lessor Forgiveness of Lease Payments (IFRS 9" Financial Instruments" and IFRS 16 "Leases") since this is not a voluntary forgiveness, but rather the result of a Court decision which is coercive and must be implemented by all parties involved. Negotiations regarding forgiveness of lease liabilities are also not exclusively carried out by PT IB as lessee and lessor, but involve the courts. It was also found that PT IB management has appropriately accounted for the modification in the forms of a reduction of future lease payments and extension of the lease period under the provision of PSAK 73, and made adjustments to the right-of-use assets and lease liabilities.

Given that the lease modifications discussed in this study entail three concurrent modifications applicable to each contractual arrangement, detailed

assessment by PT IB's management becomes imperative. This is to ascertain that the accounting treatments selected for each modification is in compliance with the applicable accounting standards. It is advisable for PT IB to engage in internal discussions and seek external consultations with experts and the Indonesian Accounting Standards Board to acquire comprehensive clarity on lease modifications, particularly considering that discussions at the IFRIC level persist into the year 2023.

For the Accounting Standards Board and practitioners, it is recommended to facilitate regular forums for discussion or consultation with entities in Indonesia. Accounting standards or interpretations may evolve more slowly than transactions in the practical world. Lease contract modifications, such as those occurring at PT IB, represent a form of transaction that still harbors accounting uncertainties, potentially resulting in diverse accounting treatments. Regular consultations can aid entities in determining appropriate accounting treatments, ensuring that financial information accurately reflects the true economic conditions.

This research is constrained by several limitations, primarily stemming from the restricted availability of comparative data and publications within the aviation industry that might encounter analogous concurrent modifications. The paucity of airlines offering open access to their financial statements, coupled with the limited disclosure of the Covid-19 impact on financial restructuring, contributes to this constraint. Moreover, the research exclusively incorporates insights from informants affiliated with PT IB, thus neglecting potential perspectives from external experts who could offer additional insights into the modifications encountered by PT IB.

For future research endeavors, it is strongly recommended to expand the corpus of publications and data used as references, thereby enhancing the depth and breadth of comparative insights. Furthermore, a more inclusive approach involving external informants, particularly experts with specialized knowledge in the field, is advocated to enrich the analytical framework and foster a more comprehensive understanding of the intricate dynamics surrounding lease modifications within the aviation sector.

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