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*“Structural and Financial Deficiencies in the ASEAN EC:
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PREFACE

Ladies and Gentlemen,

For me as the Rector of the Universitas Borobudur it is a great honor and pleasure to welcome you in our university. I would like to thank you sincerely for choosing the Universitas Borobudur for hosting this year's 14th International Conference on Applied Business and Economics – ICABE 2018.

The attraction of distinguish scientists, practitioners, and researchers from all over the world and established international organization as well as foreign universities such as the International Management Association, University of Pavia, University of Latvia, Rostov State University of Economics, Vira Ponnambalam University, DUSMARA Bina Nusantara University and UIN Raden Inan Lampung among others, is an evidence for the high quality of this international scientific event. Accept our most sincere respect for the professionalism, responsibility and effort you put into the validation of the educational and scientific values and for the development of the international and the multidisciplinary scientific cooperation. I am confident that the international conference of ICABE 2018 will launch many future beneficial scientific and practical applied collaborations and projects internationally.

On behalf of the academic community of Universitas Borobudur, we would like to express our most warmest feelings to the participant in the 14th International Conference on Applied Business and Economics – ICABE 2018, "Statistical and Financial Delicacies in the ASEAN EC: Strategies Moving Forward". I wish everyone would be healthy and be successful.

Rector of Universitas Borobudur



Prof. Dr. H. Basir Baribisa

GRATITUDE SPEECH

Assalamualaikum warahmatullahi wabarakatuh

Peace upon all of you and may God bless you all.

Welcome to International Conference on Applied Business and Economics 2018 Jakarta, Indonesia. ICABE 2018 is Co-sponsored by the Universitas Borobudur, The Jeant Monnet Centre Of Excellence-Piraeus, The Jeant Monnet center of Excellence-Brasov, The Transylvania University of Brasov, The University of Latvia, The Rostov State University of Economics, The UNICERT Group of universsal Certification Solution and The University of Piraeus.

Alhamdulillah, praise to God that organizing committee can complete the Manual Conference of international conference entitled "**Structural and Financial Deficiencies in the Asean EC: STRATEGIES MOVING FORWARD**". On this occasion, I would like to take the opportunity to thank the Rector Universitas Borobudur, Prof Dr H Basir Barthos, Vice Rectors, and all Faculty Deans who have encouraged and trusted the committee to arrange this very important academic affairs. In addition special thank to Head of Coordinator Private Universities Jakarta **Dr. Illah Sailah** who has encouraged academic activities like this conference.

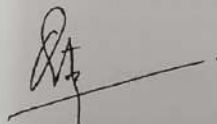
I would also like to thank the founder and Chair Conference Prof. Dr. El Thalassinos who has attributed his full supports for the success of this conference, and I also thank to all Guest Speakers: Prof Dr R.Rupeika-Apoga (University of Latvia, LV), Prof Dr V. Dumitrache (DESMARA Brasov University, RO), Prof. Dr. Natalia Vovchenko (Rostov State University of Economics, RU), Prof.Dr. A. Brelik (West Pomeranian University, PO), Prof Dr. Tulus Suryanto, CA (UIN Raden Intan, INA) by whom I believe that this conference will generate more fruitful occurrences

Last but not least, I would like to send my acknowledgment and appreciation to all presenters as well as to all participants who attended this conference.

Walaikumussalam warahmatullahi wabarakatuh

Peace upon all of you and may God bless you all.

Sincerely



Bambang Bernanthos
Chairman Orginazing Committee

14th International Conference on Applied Business & Economics
February 23rd - 24th 2018
Venue: PARK HOTEL
Jl. DL Panjaitan Kav 5 Cawang, East Jakarta - Indonesia

Plenary Session		TOPIC TRACK
DATE	TIME	
February, Friday, 23 rd 2018	01.20 pm - 02.00 pm	Registration and Welcome Speech
	02.00 pm - 02.20 pm	Opening
	02.20 pm - 02.45 pm	Welcome Greetings and Opening Remarks: Prof. Ir. Bambang Herasathos, MSc (Chairman of Committee)
		Opening Speech: Dr. Ikh Sahib, MS (Coordinator of Kopertis Wilayah III Jakarta) Prof. Dr. H. Basu Barboot (Universitas Borobudur, Indonesia)
	02.45 pm - 04.00 pm	Keynote Speeches: Plenary Session: Prof. Dr. TI Thibaut: "The European Sovereign Debt Crisis and the Role of Credit Swaps" (University of Paris, GR) Prof. Dr. R. Ruspika-Apaga: "Innovative Financing of SMEs" (University of Latvia, LV) Prof. Dr. V. Dumitrescu: "Global Trade Liberalization versus Current Protectionist Measures: The Case of South-Eastern Europe" (DESMARA Braşov University, RO) Prof. Dr. Natalia Vorobkova: "Diversification of Natural Gas in the European Union" via skype (Bosnyak State Univ. of Economics, RU) Prof. Dr. A. Brecht: "Tale to be announced" via skype (West Pomeranian University, PO)
	04.00 pm - 04.30 pm	Coffee break
	04.30 pm - 06.00 pm	Parallel Session 1 (5 room) Room 1 (Palm Room): Moderator Prof. Ramona Ruspika-Apaga Dr. Joseph Benwarin 1. TDI Attraction: Comparative Analysis of the Baltic States and Georgia. Tatiana Papiashvili, Svetlana Sakonova, Ramona Ruspika-Apaga 2. Management of the financing of small organizations on the basis of a cognitive approach. Natalia Morozko, Nina Morozko, Valentina Ditenko

February, Saturday, 24 th 2018	04.10 pm - 05.00 pm	3. Threshold regression for analysis of the impact of global liquidity on the economics of ASEAN countries. Mahjuz Ekananda
		4. A Study of Possible Implication of Piggymark on Personal Income Tax for Provincial Government Machbud Sukri, Jaka Harito
		5. Analysis of Co-Branding Strategy Between Commercial Entities with Non-Profit Entities Zainul Fikri, Rizal Eddy Halim
		6. The Contribution of International Exchange Index to Composite Indonesian Stock Index Wahyu Murti, Nega Zahera, Ismaelinda
		7. Mediation as an Alternative Method of Dispute Resolution in Business Dyrysh Lyubov Mikhailovna, Fedorenko Natalya Vladimirovna, Fedorenko Julia V. 8. SME's Alternative Financing: The Case of Latvia Ramona Ruspika-Apaga, Svetlana Sakonova
	07.00 pm - 08.00 pm	Cake Dinner
	08.00 am - 08.30 am	Registration and Coffee Break
	08.30 am - 12.00 am	Parallel Session 2 (5 room) Room 2 (Palm Room): Moderator Prof. How the Factor Analysis Affects Earning Per Share of a Manufacturing Company Rudi Bratamanggala 11. Analysis of Mobile Payment Acceptance in Indonesia Adnan Putra Savogya and Rizal Eddy Halim 12. The Relevance of Intangible Assets in The Knowledge-Based Industry: The Case of Two Companies Listed in the Indonesian Stock Exchange 2014 - 2016 I Gusti Andiana, Elizabeth Sugianto D, MF Dini Indrajati 13. Antecedent Audit Quality: Analysis of Auditor-Auditee Factors In The Perspective Theory Of Regulation (Case Study On External Auditors Of Kip In Indonesia) Muhammad Taqi, Rahmawati, Badi, Payamta

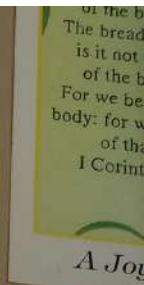
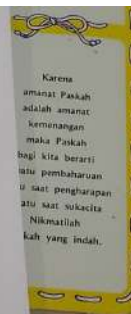


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The Relevance Of Intangible Assets In The Knowledge-Based Industry

Ardana, C.I.; Dermawan S.E.; Widjaja I.D.*)

Abstract:

The abundance of intangible assets that are not recognized as assets and only fall under the expenses category according to the existing financial accounting standards (the existing FAS) and the impact of such practices, justify this research and further developments. Many stakeholders are not satisfied by this accounting treatment. They require the expenditure for intangible assets to be treated as investments (assets), and not as expenses. The purpose of this study is to assess the effectiveness of the existing FAS, and then try to provide an alternative (the modified FAS) aimed at enhancing the degree of relevance of financial statements relating to intangible assets. The modified FAS tries to accommodate the expectations of stakeholders using such information. This is a case study research using secondary data from two companies listed with the Indonesia Stock Exchange during the 2014-2016 time frame. By comparing two versions of financial figures and ratios (using the existing FAS and the modified FAS), it can be concluded that (a) total assets and operating profits using the modified FAS are higher than those in the existing FAS; (b) profitability ratios (OPM, ROA, ROE), and leverage ratios (DTA, DER) in the modified FAS are better and healthier, but asset turnovers (ATO) are lower than those in the existing FAS. The higher the variation of the financial figures or ratios between the two versions of FAS, the lower the relevance of the financial statements. The relevance of the statements will improve if the authorized body accommodates the expectation of the users of financial statements.

Keywords: the modified FAS, case study.

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1. Introduction

The value of corporations in today's global economic system and in the coming years will be characterized by an increasing role of investment under the form of intellectual capital/IC (Smalt and McComb II, 2016:1; Zeghal and Maaloul, 2011:262). Another term often used for the IC is "knowledge capital" but from an accounting perspective, the term intangible assets is more popular to describe this kind of assets (Ancuta, Moisescu, and Varlanuta, 2017:32). As said by Vetrenko, Mordovets, and Yaluner (2017:605), the main tool for the IC development is an "intelligent enterprise", which is described by a permanent education process. The interesting question is why accountants cannot (will not) recognize most of the

value of this intellectual capital in the corporate balance, whereas the contribution of intellectual capital has an increasingly important role in determining the value of a corporation. Aiming to answer this question, this study will attempt to examine the different views on intellectual capital from two perspectives: users of financial statements (business people, economists, investors), and presenters of financial statements (accountants), and try to provide an alternative view aligning these two different perspectives. To clarify this issue, this research presents two versions of selected financial figures and ratios, using the existing FAS and the modified one, from two public companies listed with the Indonesia Stock Exchange in of 2014-2016.

2. Literature Review

Damodaran (2009:3) saw inconsistent accounting treatment of the expenditures relating to the acquisition of tangible assets with intangible assets, particularly in distinguishing two types of expenditures - whether an expenditure is called capital expenditure or operating expense. The simple basic principle or rule used by the accountant to distinguish these two types of expenditure is to look at the economic benefits of the expenditure. If the impact of the benefit is longer than one year, it will be recognized as a capital expenditure, but if its impact is only during the current year, it is recognized as an operating expense. This rule applies consistently to tangible fixed assets (land, buildings, equipment, vehicles), but not to intangible assets. Most expenditures related to intangible assets are recorded as operating expenses, even though they have an economic impact for more than one year.

Koch et al (2000:6) suggested that intangible assets play an increasingly important role in the creation of corporate value; however, using a traditionally accounting mechanism in recognizing assets is no longer sufficient in the knowledge-based economy. Salamudin et al (2010:391) reveals that the book value of net assets (BVNA) are still dominant in Malaysian corporate valuation but this trend is declining as greater interest has now been directed towards employing intangible assets and earnings as important variables and the results indicate that there is a positive trend in intangible assets development in Malaysia. This is consistent with those of advanced markets such as the US, Europe and Australia, but the Malaysian market lags by about 20 years as compared to the more advanced ones. The main contribution of their study provides empirical evidence that intangible assets or intellectual assets are strategic assets that require attention in line with development of the knowledge-based economy.

According to the IAS no 38 on intangible assets (Mirza and Holt, 2011: 393), any resource usage or expenditure, especially from internally generated programs, can be recognized as intangible assets (or to be capitalized) only if it generates a certain impact for the company's future benefits, but if its impact for the company's future benefits is still uncertain, it must be treated as expenses. By applying this strict rule, then, most expenditure relating to internally generated intangible assets will be

recorded as expenses, and not as assets. Consequently, both profit figures in profits and losses summary and asset value in balance sheets are understated. Expenditures for research and development, customer related activities, promotion, product and IT development, human resource training and similar, are still treated as expenses by accountants, based on the fact that all these kinds of expenditure are still uncertain. Meanwhile, most users of the financial statements consider all these kinds of expenditure are clearly meant for the future growth of a company and, consequently, they must be treated as assets. Currently, there is a trend, according to which, more and more researchers and users of financial statements demand that existing FAS to be modified.

As mentioned by Damodaran (2009:2), accountants routinely miscategorize operating and capital expenses when firms invest in intangible assets. Accountants treat fixed assets and intangible assets differently. In fixed assets, any expenditure that generates economic impact for longer than one year is capitalized as assets, but in case of intangible assets, most of the expenditure that qualifies as capital expenditure is still to be treated as expense. The inequality in accounting treatment between fixed assets and intangible assets may obscure the consistency of account presentation in financial statements.

3. Hypotheseis

Criticism of the weakness in the presentation of financial statements from a semantic perspective has been widely approached in accounting theory books. While this is not responsibly treated by the authorized body (IAI/IASB), the public is increasingly questions the figures in the financial statements. If the financial accounting standard only focuses on the syntactic order alone, then, this could have an impact on losing public confidence in the accounting profession, and, in turn, on eroding the relevance of the statements for decision making.

4. Research Methodes

This research uses a case study method. Two knowledge-based public companies selected as research subjects are PT GIAA and PT INDF. The financial statements of both companies were used as objects of study. There are two variables in this case study model: first, the relevance of financial statements, and second, the existing FAS, which is guided by the International Accounting Standard (IAS) No. 38 on intangible assets. Data collection for the case study in this research has been based on observation and documentation.

5. Result and Discussion

In order to increase the relevance of the statements, in the respect of improving the semantic order of the statements, this research tries to propose a modified FAS by accomodating most (if not all) views of users relating to intangible assets. Under this

modified FAS, the "certainty" criteria is to be softened. The reason is that it is impossible to predict with a high degree of certainty during an early stage, the future benefit of any expenditure of internally generated intangible assets. Although they are uncertain, all these kinds of expenditure will clearly influence the future growth of a company. For this very reason, any kind of expenditure of intangible assets can be capitalized first. In fact, the modified FAS is identical to the accounting treatment of goodwill where no amortization is recognized, and periodically it is subject to an impairment test. When the result of the impairment test is significant, it is then recognized as a loss of impairment.

Using PT GIAA and PT INDF during 2014-2016 time interval as a case study, some financial figures and ratios under the two versions of FAS (the existing, and the modified FAS) can be summarized in Table 1 and Table 2.

Table 1 Comparative accounts using the existing FAS and the alternative (modified FAS) 2014- 2016

Description	PT GIAA (in USD)		PT INDF (in Rp.000.000,-)	
	The existing FAS (PSAK 19)	The modified FAS	The existing FAS (PSAK 19)	The modified FAS
Operating Income (2014)	(395.228.121)	(328.879.517)	7.319.620	8.755.741
Intangible Assets (2014)	6.017.329	72.365.933	2.761.473	4.197.594
Total Assets (2014)	3.113.079.315	3.179.427.919	86.077.251	87.513.372
Total Equity (2014)	879.467.591	945.816.195	40.274.198	41.710.319
Operating Income (2015)	168.745.441	274.865.050	7.362.895	10.349.064
Intangible Assets (2015)	4.648.523	110.768.132	2.628.235	5.614.404
Total Assets (2015)	3.310.010.986	3.416.130.595	91.831.526	94.817.695
Total Equity (2015)	950.723.185	1.056.842.794	43.121.593	46.107.762
Operating Income (2016)	99.103.939	231.903.047	8.285.007	12.999.911
Intangible Assets (2016)	4.992.892	137.792.000	2.329.997	7.044.901
Total Assets (2016)	3.737.569.390	3.870.368.498	82.174.515	86.889.419
Total Equity (2016)	1.009.897.219	1.142.696.327	43.941.423	48.656.327

Source: financial statements as reported with the Indonesia Stock Exchange

By reclassifying promotional expenses, professional services and training expenses of PT GIAA amounting to USD. 26.679.499 in 2016, USD. 39.771.005 in 2015, and USD. 66.348.604 in 2014 as accumulated addition in intangible assets, and reclassifying advertising and promotional expenses and expert services of PT INDF totaling Rp.1.728.735, - in 2016, Rp.1.550.048, - in 2015 and Rp.1.436.121 in 2014 as accumulated addition in intangible assets will change significantly the operating income, intangible assets, total assets, and total equity of both companies. Some key ratios affected by the modified FAS are: Operating Profit Margin (OPM), Return on Assets (ROA), Return on Equity (ROE), Debt to Asset Ratio (DTA), Debt to Equity Ratio (DER), and Asset Turn Over (ATO). Table 2 below shows the changes in those ratios.

Table 2 Changes in Financial Ratios 2014 through 2016

	2016		2015		2014	
	The Existing FAS (PSAK 19/IAS 38)	The modified FAS	The Existing FAS (PSAK 19/IAS 38)	The modified FAS	The Existing FAS (PSAK 19/IAS 38)	The modified FAS
PT GIAA						
OPM	2,56%	6,00%	4,42%	7,2%	-10,05%	-8,36%
ROA	2,65%	5,99%	5,10%	8,05%	-10,58%	-10.34 %
ROE	9,81%	20,29%	17,75%	26,01%	-44,94%	-34,77 %
DTA	72,98%	70,48%	71,28%	69,06%	71,75%	70,25 %
DER	270,0%	238,70%	248,2%	223,24%	254,0%	236,2 %
ATO	103,3%	99,83%	115,3%	111,67%	126,4%	123,7 %
PT INDF						
OPM	12.41%	19.48%	11.49%	16.15%	11.51%	13.77 %
ROA	10.08%	14.96%	8.02%	10.91%	8.5%	10.00 %
ROE	18.85%	26.71%	17.07%	22.45%	18.17%	20.99 %
DTA	46.53%	44.00%	53.04%	51.37%	53.21%	52.34 %
DER	87.01%	78.58%	112.96 %	105.64%	113.72%	105.81 %
ATO	81.23%	76.82%	69.76%	67.56%	73.88%	72.67

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Source: financial statements as reported with the Indonesia Stock Exchange

With modified FAS, the profitability ratios (OPM, ROA, ROE), and the leverage ratios (DTA, DER) are better and healthier, but the asset turnover (ATO) is lower than those in the existing FAS. Most variations in financial figures and ratios between the two versions of FAS are significant. The wider the variation of the financial figures or ratios between the two versions of FAS, the lower the relevance of the financial statements. The relevance of the statements will continue to be questioned if the authorized body does not accommodate the needs of the users of financial statements.

6. Conclusion

The existing FAS (IAS 38), relating to intangible assets, applies a strict rule to capitalize any resource usage or expenditure, especially from internally generated activities. The expenditure can be capitalized only if it generates a certain impact for the company's future benefits, but if the impact for the company's future benefits is still uncertain, it must be treated as expense. By applying this strict rule, then most expenditure relating to internally generated intangible assets will be recorded as expenses, and not as assets. Consequently, both profit figures in profits and losses summary and asset value in balance sheet are understated.

This research proposes a modified FAS aimed at increasing the relevance of the statements, in the respect of improving the semantic order of the statements. Within the analysis of financial statements of the two knowledge-based public companies listed with BEI during the 2014-2016 time interval, the profitability ratios (OPM, ROA, ROE), and the leverage ratios (DTA, DER) in modified FAS are better and healthier, but the asset turnovers (ATO) are lower than those in an existing FAS. The constraint of this study is that the published financial statements do not display detailed expenditure, so that the analysis in this study is limited to the information disclosed in the notes to the financial statements.

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Dumping in Ac! No. 5 Years 1999 on the Prohibition of Monopolies and Competition [Practices Are Unhealthy Businesses Syaparuddin, Imam Karvono, Polter Gultom, Suryono 710-714](#) [Conference Proceedings Jakarta Indonesia, JC'ABE 2018 pP. 10- 16](#) [The Relevance of Intangible Assets in the Knowledge-Based Industry](#) Aruana, L .I., vermawan wijaja I.v.) Abstract: The abundance of intangible assets that are not recognized as assets and on/v/all under the tAIett.'. cuieguly UCU01di1tV II) inc e..tisiing /snuucwi uLcuurtiirg siunu'aru'. (the e.isiin FAS) and the impact of such practices, justify this research and further developments. Many stakeholders are not satisfied by this accounting treatment. They require the expenditure fbi' intangible assets to he treated as investmentx (assets), and not as expenses. The purpose of this study is to assess the effrcliveness of the existing FAS, and then try to fit U VU (4tt Uilf 11t4U ye reie tSUIAtJLeL I J1J1 uit,iea Ut CtlttUtlI UIX LtLC Ltt ee U) I CtC 4(AIt(.0 (1/ financial statements relating to intangible assets. The modified FAS tries to accommodate the expectations of stakeholders using such information. This is a case study research using secondary data from two companies listed with the Indonesia Stock Exchange during the 2014-2016 time frame. By comparing two Cf..L.:U..I.S....).I'i'J1J..t.It.U...i.I.L...LJtt4') (4ttUJIU.:U_U.) UI...).t.I.I.tue eA.t.,.)L:.t.tt_1Ti'l-.4)(UIL_U..JMI.C iuuutjieu J cI)J, U LUIL he concluded that ('a) total assets and operating profits using the inodUIed FAS are higher than those in the existing FAS; (h) profitability ratios (OPM, ROA, ROE), and leverage ratios (DTA, DER) in the inodifled FAS are better and healthier, hut asset turnovers (4 TO) are lower than those in the existing FAS. The higher the variation of the financialfigures or ratios hehi'een the two vel'SiOfIS of F.4S, the lower the relevance of the financial statements. The relevance of' the statements will improve if the authorized body accommodates the expectation of the users of financial statements. *,) Accounting Department, Tarumanagara Univeiity, Jakarta, Indonesia e-mail: iceiiik aI'dalia(c43'a/IOO. coin 1. Introduction The value of corporations in todays global economic system and in the coming years will be characterized by an increasing role of investment under the form of intellectual capital/IC (Smalt and McComb 11, 2016:1; Zeghal and Maaloul, 2011:262). Another term often used for the IC is "knowledge capital" but from an Ardana, CI., Der,nawan S.E., Widjaja I.D. /1 accounting perspective, the term intangible assets is more popular to describe this kind of assets (Ancuta, Moiescu, and Varlanuta, 20 17:32). As said by Vetrenko, Mordovets, and Yaluner (2017:605), the main tool for the IC development is an "intelligent enterprise", which is described by a permanent education process. The interesting question is why accountants cannot wiil not) recognize most of the value of this intellectual capital in the corporate balance, whereas the contribution of intellectual capital has an increasingly important role in determining the value of a corporation. Aiming to answer this question, this study will attempt to examine the different views on intellectual capital from two perspectives: users of financial staiements (business people, economists, investors), and presenters of financial statements (accountants), and try to provide an alternative view aligning these two different perspectives. To clarify this issue, this research presents two versions of selected financial figures and ratios, using the existing FAS and the modified one, from two public companies listed with the Indonesia Stock Exchange in of 20 14- LU 10. 2. Literature Review Damodaran (2009:3) saw inconsistent accounting treatment of the expenditures iulailiig LU dhe 4L4U!ML!U1! Ui L1i1VIC 4SSCLS WILII IiiLaiigil)IC dNbVLN, IJILIU!411Y Iii distinguishing two types of expenditures - whether an expenditure is called capital expenditure or

operating expense. The simple basic principle or rule used by the accountant to distinguish these two types of expenditure is to look at the economic benefits of the expenditure. If the impact of the benefit is longer than one year, it will be capitalized. If the impact is shorter than one year, it is recognized as an operating expense. This rule applies consistently to tangible fixed assets (land, buildings, equipment, vehicles), but not to intangible assets. Most expenditures related to intangible assets are recorded as operating expenses, even though they have an economic impact for more than one year. Koch et al (2000:6) suggested that intangible assets play an increasingly important role in the creation of corporate value; however, using a traditional accounting mechanism in recognizing assets is no longer sufficient in the knowledge-based economy. Salamudin et al (2010:391) reveals that the book value of net assets (fl\TM A\ k'-' TAJfl/ 1l flS)%iLI t%.JhthLtiL4lfl ASH 1V1U114J0•%th& .JS e,- V ttAttLAtl¼Jtfl 1L-.FtAtt h,ttkIO I'.LtS.4 ; '0 declining as greater interest has now been directed towards employing intangible assets and earnings as important variables and the results indicate that there is a positive trend for intangible assets development in Malaysia. This is consistent with those of advanced markets such as the US, Europe and Australia, but the Malaysian rvlqrL'cst liqLrbwP INT r .6eiit 11 r'.rc no e,ySvJq4Ar,•.¼rSI tel tLhtl 1ASA,Jr&,' 'lflr'srhc'c'.4 S LA tI-SnS'4l 51,0 contribution of their study provides empirical evidence that intangible assets or intellectual assets are strategic assets that require attention in line with development of the knowledge-based economy. The Relevance of Intangible Assets in the Knowledge-Based Industry 12 According to the IAS no 38 on intangible assets (Mirza and Holt, 2011: 393), any resource usage or expenditure, especially from internally generated programs, can be recognized as intangible assets (or to be capitalized) only if it generates a certain impact for the company's future benefits, but if its impact for the company's future benefits is still uncertain, it must be treated as expenses. By applying this strict rule, most expenditure relating to internally generated intangible assets will be recorded as expenses, and not as assets. Consequently, both profit figures in profits and losses summary and asset value in balance sheets are understated. Expenditures for research and development, customer related activities, promotion, product and IT development, human resource training and similar, are still treated as expenses by accountants, based on the fact that all these kinds of expenditure are still uncertain. Meanwhile, most users of the financial statements consider that all these kinds of expenditure are clearly meant for the future growth of a company and, consequently, they must be treated as assets. Currently, there is a trend, according to which, more and more researchers and users of financial statements demand that existing FAS to be modified. As mentioned by Damodaran (2009:2), accountants routinely miscategorize operating and capital expenses when firms invest in intangible assets. Accountants treat fixed assets and intangible assets differently. In fixed assets, any expenditure that generates economic impact for longer than one year is capitalized as asset, but in case of intangible assets, most of the expenditure that qualifies as capital expenditure is still to be treated as expense. The inequality in accounting treatment between fixed assets and intangible assets may obscure the consistency of account presentation in financial statements. Hypotheses Criticism of the weakness in the presentation of financial statements from a semantic perspective has been widely approached in accounting theory books. While this is not responsibly treated by the authorized body (IAT/IASB), the public is increasingly questioning the figures in the financial statements. If the financial accounting standard only focuses on the syntactic order alone, then, this could have an impact on losing public confidence in the accounting profession, and, in turn, on eroding the relevance of the statements for decision making. Research Methodology This research uses a case study method. Two knowledge-based public companies selected as research subjects are PT GIAA and PT INDF. The financial statements of both companies were used as objects of study. There are two variables in this case study model: first, the relevance of financial statements, and second, the existing FAS, which is guided by the International Accounting Standard (IAS) No. 38 on intangible assets. Data collection for the case study in this research has been based on observation and documentation. Ardana, C.!, Derinawan LE., Wid/aja I.D. /3

5. Result and Discussion In order to increase the relevance of the statements, in the respect of improving the semantic order of the statements, this research tries to propose a modified FAS by accomodating most (if not all) views of users relating to intangible assets. Under this modified FAS, the "certainty" criteria is to be softened. The reason is that it is impossible to predict with a high degree of certainty during an early stage, the future benefit of any expenditure of internally generated intangible assets. Although they are uncertain, all these kinds of expenditure will clearly influence the future growth of a company. For this very reason, any kind of expenditure of intangible assets can be capitalized first. In fact, the modified AS is identical to the accounting treatment of goodwill where no amortization is recognized, and periodically it is subject to an impairment test. When the result of the impairment test is significant, it is then recognized as a loss of impairment. Using 1-1 (iIAA and 1-1 IINV1- during 2014-2010 time interval as a case study, some financial figures and ratios under the two versions of FAS (the existing, and the modified FAS) can be summarized in Table 1 and Table 2. Table 1. Comparative accounts using the existing FAS and the alternative (modified P/I). (114- z'tiit) Description PT GIAA (in USD) PT INDF (in Rp.900.000,-)

	The existing FAS (PSAK 19)	The modified FAS (PStk ii)	The existing FAS	The modified FAS
Operating Income (2014)	395.228.121	(328.879.517)	7.319.620	8.755.741
Intangible Assets (2014)	6.017.329	72.365.933	2.761.473	4.197.594
Total Assets (2014)	3.113.079.315	3.179.427.919	86.077.251	87.513.372
Total Equity (2014)	879.467.591	945.816.195	40.274.198	41.710.319
Operating Income (2015)	168.745.441	274.865.050	7.362.895	10.349.064
Intangible Assets (2015)	4.992.892	137.792.000	2.329.997	7.044.901
Total Assets (2015)	3.310.010.986	3.416.130.595	91.831.526	94.817.695
Total Equity (2015)	950.723.185	1.056.842.794	43.121.593	46.107.762
Operating Income (2016)	99.103.939	23.1.903.047	8.285.007	12.999.911
Intangible Assets (2016)	4.992.892	137.792.000	2.329.997	7.044.901
Total Assets (2016)	3.737.569.390	3.870.368.498	82.174.515	86.889.419

The Relevance of Intangible Assets in the Knowledge-Based Industry 14

(2016) Total Equity 1.009.897.219 1.142.696.327 43.941.423 48.656.327

(2016) Source: Financial statements as reported with the Indonesia Stock Exchange. By reclassifying promotional expenses, professional services and training expenses of PT GIAA amounting to USD. 26.679.499 in 2016, USD. 39.771.005 in 2015, and USD. 66.348.604 in 2014 as accumulated addition in intangible assets, and reclassifying advertising and promotional expenses and expert services of PT TNDF totaling Rp.1.728.735, - in 2016, Rp.1.550.048, - in 2015 and Rp.1.436.121 in 2014 as accumulated addition in intangible assets will significantly change the operating income, intangible assets, total assets, and total equity of both companies. Some key ratios affected by the modified FAS are: Operating Profit Margin (OPM), Return on Assets (ROA), Return on Equity (ROE), Debt to Asset Ratio (DTA), Debt to Equity Ratio (DER), and Asset Turn Over (ATO). Table 2 below shows the changes in those ratios. Table 2. Changes in Financial Ratios 2014 through 2016

	The Existing 2015	The modified FAS (PSAK 19/11AS 38)	dFAS FAS (PSAK 19/LAS 38)	dFAS PTGIAA	OPM	ROA	ROE	DTA	DER	ATO
PTTNDP	OPM 12.41%	ROA 10.08%	ROE 18.85%	DTA 46.53%	DER 87.01%	6.00%	5.99%	20.29%	70.48%	238.70%
99.83%	19.48%	14.96%	26.71%	44.00%	78.58%	4.42%	5.10%	17.75%	71.28%	248.2%
115.3%	11.49%	8.02%	17.07%	53.04%	112.96%	7.2%	8.05%	26.01%	69.06%	223.24%
111.67%	16.15%	10.91%	22.45%	51.37%	105.64%	-10.05%	-10.58%	-44.94%	71.75%	254.0%
126.4%	11.51%	8.5%	18.17%	53.21%	113.72%	-8.36%	-10.34%	-34.77%	70.25%	236.2%
123.7%	13.77%	10.001%	20.99%	52.34%	105.81	2014	The Existing	modified FAS	dFAS (PSAK 19/11AS 38)	ATO 81.23%
76.82%	69.76%	67.56%	73.88%	1	72.67%	Source: Financial statements as reported with the Indonesia Stock Exchange. With modified FAS, the profitability ratios (OPM, ROA, ROE), and the leverage ratios (DTA, DER) are better and healthier, but the asset turnover (ATO) is lower than those in the existing FAS. Most variations in financial figures and ratios between the two versions of FAS are significant. The wider the variation of the Ardana, CI., Derinawan S.E., Widjaja I.D. 15 financial figures or ratios between the two versions of FAS, the lower the relevance of the financial statements. The relevance of the statements will continue to be				

questioned if the authorized body does not accommodate the needs of the users of financial statements. 6. Conclusion The existing FAS (IAS 38), relating to intangible assets, applies a strict rule to capitalize any resource usage or expenditure, especially from internally generated activities. The expenditure can be capitalized only if it generates a certain impact for the company's future benefits, but if the impact for the company's future benefits is still uncertain, it must be treated as expense. By applying this strict rule, then most expenditure relating to internally generated intangible assets will be recorded as expenses, and not as assets. Consequently, both profit figures in profits and losses summary and asset value in balance sheet are understated. This research proposes a modified FAS aimed at increasing the relevance of the statements, in the respect of improving the semantic order of the statements. Within the analysis of financial statements of the two knowledge-based public companies listed with BET during the 2014-2016 time interval, the profitability ratios (OPM, ROA, ROE), and the leverage ratios (DTA, DER) in modified FAS are better and healthier, but the asset turnovers (ATO) are lower than those in an existing FAS. The constraint of this study is that the published financial statements do not display detailed expenditure, so that the analysis in this study is limited to the information disclosed in the notes to the financial statements. References: Ancuta, A.G., F.Moisescu, and F.Varlanuta, 2017, 'Study Regarding the Financial Reporting of Intangible Assets', Case of Romanian Pharmaceutical Industry, European Journal of Sustainable Development (2017), 6, 1, pp.3141. Darnodaran, A, 2009, 'Valuing companies with intangible assets, Stern School of Business', adamodar@stern.nyu.edu. Koch, G.R., K-H. Leitner, M. Bornemann, 2000, 'Measuring and Reporting Intangible Assets and Results in a European Contract Research Organization'. Paper prepared for the Joint German-OECD Conference Benchmarking Industry-Science Relationships, October 16 - 17, 2000, Berlin, Germany. www.ai-cs.ac.at/public/fulltext/wissensbilanz. Mirza, A. A. and G.J.Holt, 2011, 'Practical Implementation Guide and Workbook for IFRS'. New Jersey: John Wiley & Son, Inc. Salamudin, N, R Bakar. MK Ibrahim, and FH 1-Iassan, 2010, 'Intangible Assets Valuation in th Malaysian Capital Market', Journal of Intellectual Capital Vol. 11 no.3 pp.391-405. Smalt, S.W. and J.M. McComb II, 2016, Accounting for Internally Generated Intangible Assets, International Journal of Accounting and Taxation, June The Relevance of Intangible Assets in the Knowledge-Based Industry 16 2016, Vol. 4, No. 1, pp.1-15. Vetrenko, P.P., V.A. Mordovets, and E.V.Yaluner, 2017, Development of Intellectual Capital in Russian Economy to Ensure the Economic Security of a Corporation, European Research Studies Journal, Volume 20, Issue 4A, 2017. pp. 604-618. Zeghal, D. and A. Maaloul, 2011, The accounting treatment of intangibles - A critical review of the literature, Accounting Forum 35 (2011), pp.262— 274, journal home page: www.elsevier.com/locate/accfor. [14th International Conference on Applied Business and Economics](#) Guest Editors: Simon Gri,na, Elefizerios Thalassinios [14th International Confrence on Applied Business and Economics Jakarta, Indonesia 2018](#) Guest Editors: Simon Gri,na, Elefizerios Thalassinios [14th International conference on Applied Business and Economics Jakarta, Indonesia 2018](#) Guest Editors: Simon Grima, Elefizerios Thalassinios [14th International coizJrence on Applied Business and Economics Jakarta, Indonesia 2018](#) Guest Editors. Simon Grima, Eleftherios Thalassi;ios

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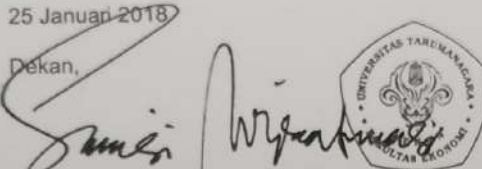
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25 Januari 2018

Dekan,


Dr. Sawidji Widoatmodjo, S.E., M.M., M.B.A.



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