

Muhammad Sardjono Hadidjaja's comment on FEE Cogito Series The Future of
Corporate Reporting—Creating the Dynamics for Change

Mr **Pantelis Pavlou**

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30 June 2016

Dear Mr **Pantelis Pavlou**

Re: Muhammad Sardjono Hadidjaja's comment on FEE Cogito Series

The Future of Corporate Reporting—Creating the Dynamics for Change

Please find the above subject as attached.

I appreciate to FEE who committed to developing corporate reporting and considering the broad issues affecting its future by release this paper stands as a key building block of FEE's long standing involvement in shaping corporate reporting and its future. With this paper FEE hopes will encourage a debate on the future of corporate reporting to find an innovation of corporate reporting.

In Appendix A, here I recognized the new formulae for the future Global Financial Reporting of government organizations, Private Companies, Public Companies, non-profit Companies and not-for-profit organizations. This new formulae was introduced in the year of 1979 with the goal to replace the current Financial Statement applied by these entities because some weaknesses in Balance Sheet and Income Statement.

I named the future Global Financial Reporting as Cash of the Investors Statement, I also present the background of this innovation.

I hope my suggestion shown in the Appendix A will fulfill the purpose of this FEE's paper. I am available to be contact via my e-mail: m.sardjono.hadidjaja@gmail.com

Yours sincerely,



Muhammad Sardjono Hadidjaja

Enclosed: Muhammad Sardjono Hadidjaja's comment on FEE Cogito Series

The Future of Corporate Reporting—Creating the Dynamics for Change

Appendix A

Q1.1. Which are the steps in the reporting process that assist in ensuring that the stakeholder's information needs are properly addressed?

A1.1

The steps in the reporting process that assist in ensuring that the stakeholder's information needs are properly addressed as follows:

- Step (1) To know the basic need of the stakeholders to the corporate. The basic need of them is money or cash.
- (2) To know how much total cash received (cash inflow)
- (3) To know how much the respective stakeholders can receive the cash from the corporate, for example: the amount of the salaries or wages of employees, the payment of the goods and services to supplier, the repayment of the credit used by the corporate,
- (4) To know the Outstanding liabilities;
- (5) To know the Personal Exemption if it is an individual company
- (6) to know the amount of tax basis to calculate the corporate tax that can be collected by Government;
- (7) The last step is to get the net cash balance of investors who need the cash dividend instead of stock dividend.

The conclusion is the basic need of all stakeholders to the corporate is CASH that can be collected from the corporate instead of net income. According to Professor Revsine that net income is an artifact 1) (Revsine, 1971).

At the end of the year in closing the book of corporate, the cash balance is exist in the real world phenomena or maybe zero balance. But if any outstanding liabilities, the cash will be deducted by those liabilities and Personal Exemption (for individual company) and the result is a tax basis. The tax basis deducted by tax the results is the real cash balance of the investors or the owner. Investors can make a decision to the real cash balance of the investors, how much for the cash dividend and how much for operating or investment purpose of the corporate.

The resume of the above process can be presented is as follows:

Cash Inflow	\$	XXX.XXX.XXX.00	
Cash Outflow		<u>XXX.XXX.XXX.00</u>	-/-
Cash Balance		XXX.XXX.XXX.00	
Liabilities		<u>XXX.XXX.XXX.00</u>	-/-
Cash Balance after Liabilities		XXX.XXX.XXX.00	
Personal Exemption (for Individual Company)		<u>XXX.XXX.XXX.00</u>	-/-
Tax Basis		XXX.XXX.XXX.00	
Corporate Tax		<u>XXX.XXX.XXX.00</u>	-/-
Cash of the Investors/Owner	\$	XXX.XXX.XXX.00	

By using technology the above resume can be provided within seconds.

In my opinion, to measure the performance of a company by knowing its Earnings or Earnings per share (EPS) is a big mistake and it is unconsciously deceive.

The above resume shown that the final measurement of the performance of a company is Cash of the Investors/Owner, its acronym is CI or CO or Cash of the Investors per share (CIPS).

- 1) Revsine, Lawrence "Predictive Ability Prices, and Operating Flows," The Accounting Review, Vol XLVIII, No. 3, July, 1971, page 480-489

Q1.2. Do you identify any impediments to reach to a broader audience for corporate reporting?

A1.2. Yes of course, the impediments to reach to a broader audience for corporate reporting because the Accounting Standards setters did not know who is a broader audience for corporate reporting.

Q1.3. When and how should stakeholders get involved in the reporting process?

A1.3. In my opinion stakeholders do not need to involve in the Financial Report process because the format have been set by the State Accounting Board *) but for Non Financial Information (NFI) the stakeholder can use shareholders meeting to get NFI as needed.

*) The explanation regarding who is the State Accounting Board shown in Answer at point A4.4.

Q1.4. Do you agree that two-way communication between companies and their stakeholders are needed to focus reporting on stakeholder needs?

A1.4. Yes I agree with two-way communication between companies and their stakeholders both for NFI and financial information excluded from the Formal Financial Reporting regulated by State Accounting Board. *)

*) The explanation regarding the formal financial reporting is shown in the Answer A2.2.

Q1.5. How could technology drive and enable changes in the audience of corporate reporting?

A1.5. Technology can easily produce both financial and non financial information. Its usefulness of multipurpose needs depend on the need of the audience of corporate reporting.

Q2.1. Do you agree that financial statements have lost, or are losing , some of its relevance?

A2.1. I agree that financial statements have lost, or are losing some of its relevance

Q2.2. If so, which are the key issues resulting in the declining relevance of financial statements?

A2.2. Before answer the question, it is important to present the fault of professional accountant since hundreds years ago, what is that? They created the Balance Sheet and then Income Statement that have been improved till today. What is the fault of them?

My explanation starts with a question. Do professional accountants realise when they prepared a Balance Sheet and Income Statement that we do a job with the result that cannot proof its mathematical truth? For the time being we know that the accountant did not care or did not know to the statement of Professor of Accounting George J. Staubus written in his book as follows:

"The failure of the sum to represent a measure of the value of the whole firm (additivity failure) is a limitation of the accounting that we do not know how to overcome." 1)

In addition that in the mathematic there is an assumption of the addition process that:"The sum of two numbers is a unique numbers" 2) and "If equal number be added to equal number the sums are equal number" 3) For example: 5 plus 3 its sum is 8 . In the Mathematic, the operation of addition needs the uniqueness of property as Keedy said:"the essential property of operation is the uniqueness" 4).

And we know that the Balance Sheet in the assets side presents in the measurement of value of many types of assets for example: Cash, Inventory, Building, Land and so on. As we understand that for Cash item its

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property of valuation is face value, for Inventory we know many types of valuation methods i.e. LIFO, FIFO and so on, for Building item its property valuation is acquisition or historical cost minus accumulated depreciation that have many methods.

Balance Sheet only accumulates the total value of money based on the respective property of each item of assets and liabilities that cannot proof its mathematical truth.

So, from the scientific approach the professional Accountants provide something very important in supporting the Financial Market and Economy with the Balance Sheet but it is scientifically illogical.

And now how about the Income Statement with its Earnings? Please thinking in deep the statement of Accounting Professor William A. Paton in his monograph and Littleton in An Introduction to Corporate Accounting Standards in the year of 1940 said: "I have not read the entire monograph, or any substantial part of it, for 35 years or ... the monograph has faults...the major faults is our failure to call attention to what is perhaps the most important measurement in a corporation's financial history the earning rate... 'Earning power' was mentioned, I believe, at one point, but the subject was not pursued I might add that lack of meaningful earning rate determination is a glaring weakness of present day accounting practice" (5). Beside that Ahmed Belkoui said: "The reliance of accounting income on the historical cost principle makes comparability difficult, given the different acceptable methods of computing 'cost' (for example, the different acceptable methods of allocation) deemed arbitrary and incorrigible" (6). Beside that Revsine said that: income is an artifact (7).

It means accountants provide financial reports that stakeholders depend on them even the financial report cannot proof their mathematical truth and income is an artifact and delusion.

The Financial, Capital market and economy of a nation and global rely on Current Financial Statements that their truth cannot be scientific accounted for.

Therefore, should the professional accountants still proudly feel to their effort in defending the existence of the current Financial Reports? What as substitutions are they?

In this chance, I have proposed the substitution in website: <https://www.ifac.org/publications-resources/consultation-paper-meeting-future-expectations-professional-competence> in Submitted Comment Letters # 35 Muhammad Hadidjaja (Indonesia)

- 1) George J. Staubus, *Making Accounting Decision*. Scholar Book Company, Houston, Texas, 1977, p 169
- 2) Harry Waldo Kuhn and James Harry Weaver, *Elementary College Algebra*, The McMillan Co., New York, 1935, page 2
- 3) Ibid page 3
- 4) Mervin L. Keedy, *Number System: A Modern Introduction*, Addison Wesley Publishing Company, Inc., Reading, Massachussets, U.S.A., 1965, page 19
- 5) William A. Paton, 'Statement by William A. Paton,' *The Accounting Review*, vol. LV, no. 4, October, 1980, page 629-630.
- 6) Ahmed Belkoui, *Accounting Theory*, Harcourt Brace Janovich, Inc., New York, 1981, page 143.
- 7) Revsine, Lawrence "Predictive Ability Prices, and Operating Flows," *The Accounting Review*, Vol XLVIII, No. 3, July, 1971, page 480-489.

Q2.3. What are the key steps that should be taken by standard setters and policy makers to foster innovation and enable financial reporting to regain and enhance its relevance?

A2.3. For the time being my suggestion is European area FEE make an approach to The European Parliament to give the understanding of the current accounting problems and the need of innovations of financial reporting in the near future to protect investor and to reach effective and efficient financial and capital market to have the sound Economy. For Indonesia, in my opinion it would be better and legitimate if FEE makes an approach to Indonesia Accounting Institute regarding the same approach to the European Parliament.

Q2.4. How could technology assist in innovation for financial reporting?

A2.4. We can use technology to create sophisticated sub ledgers of all assets that are owned or managed via rentals and contracts included donated from the third parties. We can make those sub-ledgers in online system for person who has an authority to access the Financial System of a certain company.

Q2.5. Which are the key challenges in developing an international set of standards and/or guidance for NFI that can be applied across the board?

A2.5. In my opinion, NFI can be discussed between Board of Directors and the respective stakeholders without the involvement of independent International Standard Boards.

Q2.6. Which organisation - if any - should take the lead in developing an internationally accepted principles-based framework for NFI?

A2.6. In my opinion, the organization should take the lead in developing an internationally accepted principles-based framework for NFI is not needed, it is only between Board of Directors and the respective stakeholders without the involvement of independent International Standard Boards.

Q2.7. What is the appropriate level of authority that those principles should have?

A2.7. Referring to my answer at point A2.6. above, this question is irrelevant to me.

Q2.8. What is the best approach to experimentation in the area of NFI ? What challenges would constituents be expected to face?

A2.8. Referring to my answer at point A2.5. above just do it, the challenge is what the appropriate change the discussion will be held.

Q3.1. Do you agree that the proposed CORE & MORE model could be a way forward for corporate reporting in the future? If not, why not?

A3.1. I don't agree with the proposed CORE & MORE model, especially in the application of Current Financial Statements.

In my understanding this proposal still defend the current Financial Reporting, The CORE still mentioned the earnings and it means Income Statement still used including other Financial Statements.

From the answer shown at point A2.2., the current accounting should abandon Balance Sheet, Income Statement, Statement of Cash Flow, Statement of Equity Changes and substitute with Cash of the Investors/Owner Statement, the high-tech Sub-ledgers, list of assets without summaries the money value. I also don't agree with the proposed CORE & MORE model, especially CORE still believe and use the well-known Auditor's Report. Please see the answer at point A4.4.

In my opinion, NFI can be discussed between Board of Directors and the respective stakeholders.

Q3.2. In which ways could the CORE & MORE help addressing the needs of a wider stakeholders' group?

A3.2. In my opinion even there is a wider stakeholders' group, their basic need is Cash or money, so company still apply Cash of the Investors/Owner. For NFI, it can be discussed between Board of Directors and the respective stakeholders.

Q3.3. What is the role of technology in developing a CORE & MORE model?

A3.3. By technology, people can create financial and non financial information easier including a CORE & MORE model.

Q3.4. Do you have any thoughts on whether, when and how corporate reporting should be updated?

A3.4. I thought we should up-date the corporate reporting as soon as possible by recognizing the New Global Financial Reporting starting with hold a discussion about the New Global Financial Reporting between Parliament of EU including Parliament of UK and I as the originator of the Concept of New Global Financial Reporting. I encourage FEE doesn't delay the discussion to protect investors, governments and people even government organizations, Private Companies, Public Companies, non-profit Companies and not-for-profit organizations in the world from illogical, artifact and delusion Current Financial Statements.

Q3.5. How should policy makers and standard setters address the trade-off between standardization versus innovation?

A3.5. The policy makers and standard setters need to realize that from the scientific approach the current Financial Reporting is illogical and unconsciously deceived the user of Financial Statements for hundreds years. They should support the effort of innovation to financial reporting.

Q3.6. What are the main challenges and the key benefits of a parallel experimentation in the area of corporate reporting?

A3.6. The main challenge is a rejection to a change of Financial Reporting Form because they have not understood yet of the New Global Financial Reporting. In my opinion, a parallel experimentation in the area of corporate reporting raise confusion in tax levied, is tax levied based on Income Statement or based on Cash of the Investors/Owner Statement?

Q4.1. Which obstacles, if any, should policymakers remove to allow for innovation in corporate reporting?

A4.1. The policymakers should support the efforts to apply the truth in Accounting by applying my suggestion regarding The New Global Financial Reporting instead of continuing the illogical and delusive current Financial Reporting – Balance Sheet etc.

Q4.2. Do liability concerns, arising from non-compliance with reporting requirements, form a barrier to innovation?

A4.2. No, as long as it has the logical and arguable reasons, there is open a chance for innovation.

Q4.3. Is the current structure of dialogue between policy makers and corporate reporting constituents effective? If not, how should this be improved?

A4.3. Absolutely not effective because they do not realize that the current Financial Reporting is illogical and unconsciously deceived the users of Financial Statements for hundreds years till today. They should read my suggestion regarding the New Global Financial Reporting deeply and invite me to give the presentation of the New Global Financial Reporting in FEE forum at the first time then SEC forum and so on.

Q4.4. What other mechanisms are needed to ensure requirements can adapt over time to achieve better coordination and consistency between different pieces of legislation?

A4.4. In my absolute opinion that in the level State or Country, the Parliament of every Country establishes a certain High State Institution named the State Accounting and Auditing Body that the main task is to coordinate in making regulations and guidance in accounting and auditing matters. This Body consists of State Accounting Body and State Auditing Body. The primary duty of the State Accounting Body as Accounting Standards Setter and the primary duty of State Auditing Body as Audit firm that perform the financial audit to government organizations, Private Companies, Public Companies, non-profit Companies and not-for-profit organizations. The High State Institution makes a regulation to ban the current Audit Firm to perform the Financial Audit but still permits to perform Non-Audit Services to companies.

In the level of international, Inter Parliamentary Union (IPU) establishes International Accounting and Auditing Body with the main task is to coordinate International Accounting Body and International Auditing Body.

The main task of International Accounting Body is making an evaluation and coordination to State Accounting Body and State Auditing Body.

In a transition period European Union (EU) can still continue the EU legislation till all states in the world established International Accounting and Auditing Body.

Q4.5. Do you have any examples of policies that enable innovation from your country? Should these examples be replicated at a European or an international level?

A4.5. Yes, we have it, it is the Act of Republic of Indonesia number 17 years 2003 about State Finance Article 32 said:

- (1) Form and the content of the report accountability of the state budget / the budget of regency as referred to in article 30 and article 31 prepared and served according to the standard of government accounting.
- (2) Government accounting standards as stated in paragraph 1 () compiled by a committee standard independent and stipulated in a government regulation after first got in consideration of the supreme financial

Q4.6. Do you agree with the proposal for a group to assist in identifying the main challenges and the key benefits from new innovative proposals for the corporate reporting of the future?

A4.6. I don't agree for this group if its member come from all independent accounting Boards. My reason because the regulation made by independent Boards cannot force the Company to implement the regulation. The group must be come from the State Accountant.

Q4.7. Are there any other suggestions you have for policymakers as to how they can foster innovation in corporate reporting?

A4.7. My suggestion is FEE would like to arrange a Discussion regarding the illogical current Financial Reports and unconsciously deceived the users of the current Financial Statements for hundreds years till today between State policymakers of EU including the UK and I in order consciousness arising about it. Hoping the discussion will encourage them in effort to innovate the corporate reporting by applying the New Global Financial Reporting.