Astra Agro Lestari: Financial Accounting

June 27, 2024, Palm Oil Factory Operated by Astra Agro Lestari in Central Sulawesi, Indonesia.

Forensic Financial Accounting Analysis From 2023

As of 2017, Astra Agro Lestari had total planted area of 290.961 hectares in Indonesia. By 2017, Astra had entered into nucleus-plasma partnerships (Plasma Scheme) involving a total of 73,099 individuals, subdivided into 2,736 farmer groups, and covering 178,379 hectares of the 297,000 hectares of landbank controlled by the group. Our study suggests that Astra Agro's financial reports may not have been applied correctly relative to IAS 17 Leases (in Indonesia the regulation is PSAK 30).

Thus, Astra's reported Plasma Plantation assets 2013–2017 may have been required to be accounted for as operating leases amortized over the course of the length of time to produce palm oil into marketable inventories (typically 5 to 7 years). Astra's 2015–2017 notes to its financial statements over this period concerning the recognition of long-term assets as originally presented partially read:

- "In accordance with Indonesian government regulations, the nucleus is granted plantation land rights if the nucleus develops plantations for local plasma farmers." These usage rights have

specific expiration dates between 2021 and 2099 at which point legal ownership revert to its lawful owners."

- Under the "scheme, the cooperation agreements are signed by the plasma farmers through local cooperatives. When the plasma plantations are mature and meet certain criteria required by the government, the plasma plantations will be handed over to the plasma farmers."
- "The handover value is generally determined at the inception of the cooperation agreement agreed by the nucleus and the plasma farmers."
- "After the handover of the plasma plantations, the plasma farmers are obliged [emphasis ours] to sell their corps to the subsidiaries as nucleus. The funded plasma plantations will be repaid through certain percentage amounts withheld by the subsidiary on the related sales."
- "The funded plasma plantations are secured by plasma plantations and all assets located on the plantations, future receivables from sales of the plasma crops."
- The development of plasma plantations is self-funded or can be financed by investment credits, the funds for which are given directly to the subsidiary by the banks.

Meanwhile, IFRIC notes that the accounting treatment of certain arrangements requires substance over legal form depending on which party maintains right of control. IFRIC 4 defined the right to control if any of the below conditions is present (IFRIC 4 was superseded by IFRS 16: Leases on 1 January 2019):

- "The purchaser has the ability or right to operate the asset or direct others to operate the asset." Based on the notes above, because the plasma farmers must pass the plasma plantations' crops upon maturity and receive instructions from the nucleus, then the nucleus seems to have control.
- "Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output." The above explicitly indicated that a previously agreed price is reached at the signing of the cooperation agreement, which is further proof that not only will the nucleus buy the entire plantations yields, but also at lower than market price.

All expenses pertaining to the cooperation agreement, in our opinion, should have been accounted for under the requirements of IAS 17 or PSAK 30 Leases. Since the crops are expected to be handed over upon maturity and because it takes 4 to 7 years for oil palm trees to mature, these expenses, in our opinion, should have been amortized over 4 to 7 years.

Thus, Astra's approach to accounting for its leases may have resulted in it overstating its retained earnings and income 2013–2017. This, in turn means that investors might have overstated their financial strength as measured by debt to equity, debt to total capital, and return on equity ratios. Additionally, increases in income would inflate net income (e.g., profits), and have the effect of increasing the return on equity ratio.