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Nicholas Renaldo [1*], Achmad Tavip Junaedi [2], Suhardjo Suhardjo [3], Amries Rusli Tanjung [4], Jahrizal Jahrizal [5], M Dalil [6], Dodi Sofyan Arief [7], Jaswar Koto [8], Sulaiman Musa [9], Kristy Veronica [10]

[1,2,3,4,10] Institut Bisnis dan Teknologi Pelita Indonesia, Indonesia

[5,6,7] Universitas Riau, Indonesia

[8] Ocean and Aerospace Research Institute, Japan

[9] Kano State Polytechnic, Nigeria

Email: nicholasrenaldo@lecturer.pelitaindonesia.ac.id [1], achmad.tavip.junaedi@lecturer.pelitaindonesia.ac.id [2], suhardjo@lecturer.pelitaindonesia.ac.id [3], amries.rusli@lecturer.pelitaindonesia.ac.id [4], jahrizal@lecturer.unri.ac.id [5], mdalil@lecturer.unri.ac.id [6], dodidarul@eng.unri.ac.id [7], jaswar.koto@gmail.com [8], sman4r@gmail.com [9], kristyveronicaibtpi@gmail.com [10]

*Corresponding Author

ABSTRACT

This study seeks to identify best practices, uncover implementation gaps, and provide recommendations to improve the quality and comparability of financial reporting in the sector. This study employs a qualitative case study approach to gain an in-depth understanding of the implementation of PSAK 64 in Indonesian oil and gas companies operating under the Production Sharing Contract (PSC) model. The sample is selected using purposive sampling, focusing on companies that: Operate in the upstream oil and gas sector in Indonesia, are governed by the PSC model, and have published financial reports in accordance with PSAK 64. The study findings reveal that while companies generally comply with the basic requirements of PSAK 64, there is considerable variation in the interpretation and application of specific provisions, particularly those related to the recognition, measurement, and disclosure of exploration and evaluation (E&E) assets. This study contributes to the accounting literature by highlighting how a single standard (PSAK 64) can be applied differently based on the contractual and regulatory environment.

Keywords: PSAK 64; Production Sharing Contract; Oil and Gas Accounting; Exploration and Evaluation Assets; Financial Reporting

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SDGs: Responsible Consumption and Production (12); Peace, Justice, and Strong Institutions (16); Industry, Innovation and Infrastructure (9); Partnerships for the Goals (17)

INTRODUCTION

The oil and gas sector plays a vital role in Indonesia's economic development, contributing significantly to state revenues, foreign exchange earnings, and national energy security (Anggraini, 2023). Due to its strategic importance and unique operational characteristics, especially in the upstream segment, the accounting treatment in this industry requires specific standards that reflect the complexity of exploration and production activities. In response to this need, the Indonesian Financial Accounting Standards Board (DSAK-IAI) issued PSAK 64: Mineral Resources Exploration and Evaluation, which aligns local practices with international standards such as IFRS 6.

PSAK 64 regulates the financial reporting of exploration and evaluation activities, enabling companies to more accurately present the economic reality of their oil and gas operations (Limbong et al., 2022). This standard is particularly relevant under the Production Sharing Contract (PSC) regime, which governs the majority of upstream oil and gas activities in Indonesia. Under a PSC, the government and contractors share production, so accurate accounting is essential for transparency, cost recovery, and fair profit distribution.

Although it has been mandatory since 2011, there are still challenges in implementing PSAK 64 consistently and transparently among oil and gas companies. These challenges often arise from differences in interpretation, the complexity of contractual arrangements, and the evolving regulatory landscape. Therefore, this study aims to analyze the implementation of PSAK 64 in Indonesian oil and gas companies, with a particular focus on how it is implemented within the framework of Production Sharing Contracts. This study seeks to identify best practices, uncover implementation gaps, and provide recommendations to improve the quality and comparability of financial reporting in the sector.

LITERATURE REVIEW

The oil and gas industries are characterized by high capital intensity, complex operations, and long project life cycles, particularly in the upstream segment (Koroteev & Tekic, 2021). Accounting for such activities has historically posed challenges for standard setters, especially in recognizing exploration and evaluation assets and allocating costs. In response, the International Accounting Standards Board (IASB) issued IFRS 6: Exploration for and Evaluation of Mineral Resources, which serves as the basis for Indonesia's PSAK 64.

PSAK 64 allows entities engaged in the exploration and evaluation of mineral resources to temporarily defer the full application of other accounting standards in the early stages of exploration (Yantiana et al., 2021). According to DSAK-IAI (2011), PSAK 64 permits flexibility in recognizing and measuring exploration and evaluation expenditures, subject to the entity's accounting policy, provided that such policies result in relevant and reliable financial information (Renaldo et al., 2021).

Several studies have examined the implementation of PSAK 64 in the Indonesian context. For instance, Siregar and Wibowo (2015) observed inconsistencies in the application of PSAK 64 among oil and gas companies, attributing them to variations in interpretation and internal policy frameworks. Meanwhile, Putri et al. (2018) highlighted that the PSC regime adds another layer of complexity due to its unique cost recovery mechanism, which affects the recognition and presentation of both capitalized and expensed items in the financial statements (Pratama et al., 2024).

In addition, (Renaldo et al., 2022) argued that the implementation of PSAK 64 is influenced by corporate governance, auditor competence, and the availability of sector-specific guidance. Companies with strong internal controls and access to professional advisory support are more likely to implement the standard effectively and consistently.

The Production Sharing Contract (PSC) framework is central to Indonesia's oil and gas governance (Krisdianto et al., 2025). Under the PSC, contractors bear all risks and costs of exploration and production, with the right to recover costs and share profits once commercial production begins. According to SKK Migas (2021), this model requires a high degree of transparency and accuracy in financial reporting, making PSAK 64 a critical tool for ensuring accountability and equitable resource sharing.

Despite the regulatory mandates, there remains a gap between theoretical compliance and practical execution. As noted by (Yusrizal et al., 2021), there is still limited empirical research focusing specifically on how PSAK 64 is implemented within the PSC framework in Indonesia, creating a need for further investigation.

This study, therefore, seeks to fill that gap by analyzing the practical application of PSAK 64 in Indonesian oil and gas companies operating under PSC arrangements. By exploring how companies comply with the standard, the study aims to identify areas for improvement and support the development of more robust accounting practices in the sector.

RESEARCH METHOD

Research Approach

This study employs a **qualitative case study approach** (Sekaran & Bougie, 2016) to gain an in-depth understanding of the implementation of PSAK 64 in Indonesian oil and gas companies operating under the Production Sharing Contract (PSC) model. The qualitative method is chosen to explore the contextual, procedural, and interpretive aspects of how accounting standards are applied in practice, particularly within a regulatory environment characterized by complexity and sector-specific norms (Creswell & Creswell, 2023).

Data Collection

The study utilizes both **primary and secondary data** (Rustan et al., 2025):

- **Primary Data**:

  Primary data are collected through **semi-structured interviews** with key informants from selected oil and gas companies, regulators (e.g., SKK Migas), public accountants, and professional consultants specializing in oil and gas accounting. Interview questions are designed to gather insights into the challenges, strategies, and policies involved in the application of PSAK 64.

- **Secondary Data**:

  Secondary data include **financial statements** (Wati, Irman, et al., 2024), **annual reports**, **regulatory documents**, and **published accounting policy disclosures** from publicly listed oil and gas companies in Indonesia. These documents are analyzed to observe how PSAK 64 is disclosed and applied in real-world settings.

Sample Selection

The sample is selected using **purposive sampling**, focusing on companies that:

- Operate in the upstream oil and gas sector in Indonesia,
- Are governed by the PSC model, and
- Have published financial reports in accordance with PSAK 64.

Examples may include Pertamina EP, Medco Energi, or other entities under the oversight of SKK Migas. The selection is based on accessibility of data and relevance to the research objectives.

Data Analysis

Data from interviews and documents are analyzed using **thematic analysis**, which involves identifying, analyzing, and reporting patterns (themes) within the data. The analysis follows these steps:

1. Data familiarization,
2. Generation of initial codes,
3. Searching for themes,
4. Reviewing themes, and
5. Defining and naming themes.

The themes are then mapped to aspects of PSAK 64 implementation, such as:

- Recognition and measurement of exploration and evaluation expenditures,
- Disclosure practices,
- Treatment of cost recovery and profit sharing under PSCs, and
- Compliance with PSAK 64 provisions.

Validity and Reliability

To ensure the **credibility and trustworthiness** of findings, the study uses triangulation by cross-verifying data from interviews, documents, and financial disclosures (Sari et al., 2022). Member checking is conducted by sharing summaries of findings with selected informants for feedback and validation.

RESULTS AND DISCUSSION

Recognition and Measurement of Exploration and Evaluation Assets

The findings indicate that the implementation of PSAK 64 varies across companies, particularly in the recognition and measurement of exploration and evaluation (E&E) expenditures. All sampled companies capitalized E&E costs in accordance with their internal accounting policies. However, the basis for capitalization differed:

- Company A applied the successful efforts method, whereby only costs associated with successful exploration activities were capitalized.
- Company B, by contrast, adopted the full cost method, capitalizing all E&E costs regardless of exploration outcome.

These findings are consistent with Siregar and Wibowo (2015), who noted inconsistencies in practice due to the flexibility PSAK 64 allows. While both approaches are permitted under PSAK 64, they result in significant differences in asset valuation and reported profit or loss, potentially affecting comparability across companies.

Application of PSAK 64 in the PSC Context

The study found that Production Sharing Contracts (PSCs) directly affect how companies apply PSAK 64. Under the PSC regime, all capital and operating costs are initially borne by the contractor, who later recovers eligible costs through a cost recovery mechanism. This influences how companies classify and report recoverable and non-recoverable expenditures:

- Some companies clearly segregated recoverable vs. non-recoverable costs in their financial statements.
- Others provided minimal disclosure, relying instead on internal documentation reviewed by SKK Migas.

Interviews revealed that the lack of harmonization between SKK Migas reporting requirements and PSAK 64 created difficulties in ensuring consistent financial presentation. This supports the findings of Putri et al. (2018), who emphasized the unique complexities of integrating accounting standards within government-controlled PSC frameworks.

Disclosure Practices and Transparency

In terms of disclosure, all sampled companies complied with the minimum disclosure requirements outlined in PSAK 64, including descriptions of their accounting policies, asset impairment assessments, and risk factors. However, the depth and clarity of disclosures varied significantly:

- Company C provided detailed notes on project-level E&E costs (Wati, Yusrizal, et al., 2024), impairment reviews, and contract-specific risks.
- Company D offered only brief, aggregated disclosures that limited stakeholder understanding of E&E activities.

This discrepancy reflects broader challenges in the oil and gas industry, where competitive sensitivity and regulatory complexity sometimes lead to minimalist disclosure strategies.

Implementation Challenges

Across all cases, companies identified common challenges in implementing PSAK 64:

- Ambiguity in interpretation, particularly concerning the treatment of abandoned wells and dry holes.
- Limited sector-specific guidance beyond PSAK 64, resulting in reliance on professional judgment or foreign benchmarks.
- Coordination gaps between financial reporting teams and regulatory affairs departments, especially regarding SKK Migas cost recovery documentation.

These findings echo those of (Dharmawati et al., 2023), who highlighted the influence of governance structures, auditor expertise, and internal controls on the quality of accounting standard implementation.

Role of Auditors and Regulators

The role of external auditors and regulators emerged as crucial in ensuring compliance. Companies with Big Four audit firms showed stronger alignment with PSAK 64 due to auditor guidance and periodic reviews. In addition, interviews with SKK Migas officials revealed that the agency encourages consistent implementation but does not directly audit compliance with PSAK 64, instead focusing on the adequacy of costs for recovery.

CONCLUSION

Conclusion

This study analyzes the implementation of PSAK 64 among Indonesian oil and gas companies operating under the Production Sharing Contract (PSC) model. The study findings reveal that while companies generally comply with the basic requirements of PSAK 64, there is considerable variation in the interpretation and application of specific provisions, particularly those related to the recognition, measurement, and disclosure of exploration and evaluation (E&E) assets. The existence of different accounting policies, such as the use of the full cost versus the successful efforts method, reflects the flexibility of PSAK 64 but also presents challenges in terms of comparability and transparency.

In addition, the unique structure of PSCs significantly affects financial reporting practices, especially regarding cost recovery. Although PSAK 64 provides a framework for financial accounting, differences between regulatory (SKK Migas) and accounting requirements often create practical difficulties in its application (Renaldo & Fransisca, 2024).

Implication

This study provides several theoretical and practical implications. **Theoretical Implications:** This study contributes to the accounting literature by highlighting how a single standard (PSAK 64) can be applied differently based on the contractual and regulatory environment. This study also highlights the interaction between financial accounting standards and government-controlled contractual arrangements in the resource sector (Renaldo, 2024).

Practical Implications. These findings are useful for: Regulators, in aligning accounting and reporting requirements between SKK Migas and DSAK-IAI; Auditors, in developing industry-specific audit procedures; Companies, in improving transparency and alignment of accounting policies; and Investors, in understanding the financial implications of accounting choices in the oil and gas sector.

Limitation

This study has several limitations:

- Sample Limitation: The research was limited to a small number of companies and may not fully represent the practices across the entire industry.
- Data Accessibility: Some data, especially those related to internal accounting policies and contract-specific arrangements, were limited or confidential.
- Time Constraint: The study reflects a snapshot in time and may not capture evolving interpretations of PSAK 64 or regulatory changes.

Recommendation

Based on the findings, the study proposes the following recommendations:

- Standardization of Accounting Policies: DSAK-IAI and SKK Migas should collaborate to issue sector-specific technical guidance to reduce interpretation gaps in applying PSAK 64.
- Enhanced Disclosure Requirements: Companies should adopt a more detailed and transparent approach to disclosing exploration and evaluation assets, particularly in relation to PSC cost structures.
- Training and Capacity Building: Regulators and industry associations should provide training for accounting professionals on the complexities of PSAK 64 and its application in PSC arrangements.
- Audit Engagement: Auditors should focus not only on compliance but also on encouraging best practices in disclosure and consistency across companies.

Future Research

For future research, several directions can be considered:

- Comparative Studies: Examine the implementation of similar standards (e.g., IFRS 6) in other jurisdictions to identify global best practices and lessons for Indonesia.
- Quantitative Analysis: Explore the financial impact of different accounting policy choices (e.g., full cost vs. successful efforts) on profitability and asset valuation.
- Integrated Reporting and ESG: Investigate how PSAK 64 interacts with sustainability reporting and environmental disclosures in the context of the oil and gas sector (Sudarno et al., 2022).
- Longitudinal Study: Conduct a multi-year analysis to assess the evolution of PSAK 64 implementation and its response to regulatory or industry changes.

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