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KNOW WHAT YOU'RE SIGNING – BEFORE **AN INACCURATE DOCUMENT** COSTS YOU

It's not uncommon in business for parties to sign documents without fully understanding their legal significance. When disagreements occur, this can lead to uncertainty about which document is binding—or whether any safeguards exist. Proper legal guidance can help avoid these pitfalls.

What They Are?

In common business practice, there are several documents that **are frequently encountered and widely used**, including the following:

- Memorandum of Understanding
- Letter of Intent
- Agreement
- Term Sheet

- Invoice
- Receipt
- Tax Invoice
- Standing Instruction
- Trade Confirmation

- Goods Received Notes
- Promissory Notes
- Remittance Advice
- Letter of Credit
- Bill of Lading

- Statement of Work
- Engagement letter
- Quotation/Proposal
- Letter of Acceptance
- Letter of Appointment

- Purchase Order
- Delivery Order
- Sales Order
- Proof of Delivery

AND MANY MORE

Sure, the names might sound familiar – but do you actually know what each of these documents is and how they're used?

To fully grasp how each document works in practice, these are the essential things you need to pay attention to:



How Are They Used?

It would be too **lengthy and time-consuming** to explain the function of each document one by one. However, in general, many of these documents can be classified into **several main categories**, as described below:

governs the whole terms of cooperation and transaction between the parties

serves as evidence of a **payment or loan request and its acceptance** by the receiving party

serves as evidence of the **delivery of goods or services** and the receiving party's **acknowledgment** of such delivery."

serves as evidence of **compliance** with **regulatory requirements**, such as **taxation, licensing, or other legal obligations**.

When Are They Used?

To understand the use of each document, it's important to first understand the timeline of a transaction then we can understand which **documents apply at each stage**. Every business transaction has its own timeline and structure, but this is the common sequence of steps in a typical business transaction:

Keep in mind that not all business transactions follow the exact same flow – some steps may be added, omitted, or rearranged depending on the nature and complexity of the deal. However, this outline reflects the general process found in most common business transactions.



1

- Execution of a non-binding document to formalize the parties' intention to proceed with the transaction – such as a Memorandum of Understanding (MoU), Letter of Intent (LoI), Term Sheet, Engagement Letter, Proposal or Quotation.
- Execution of a binding document, usually a Non-Disclosure Agreement (NDA), to ensure that all information shared in relation to the transaction remains confidential.
- initiation of a due diligence process – often referred to as a “get-to-know” phase – to assess the transaction structure and the other party's compliance in key areas such as financial, tax, and legal matters.

INITIATION

2

- Execution of binding documents that serve as the foundation of the transaction and govern all provisions related to it – such as sales and purchase agreement, loan agreement, term sheet, and etc.
- Issuance of documents to request payments or loans, as directed by the relevant legal provisions or supporting documents—such as invoices, tax invoices, letters of credit, standing instruction and etc.
- Issuance of documents to request and delivery of goods or services, in accordance with the terms outlined in the underlying agreements—such as sales order, delivery order, purchase order, bill of lading and etc.

IMPLEMENTATION

3

- Issuance of documents as payments acceptance or loans clearance, as directed by the relevant legal provisions or supporting documents—such as payment receipt, remittance advice, sales order, etc.
- Issuance of documents as receipt of goods or services delivery, in accordance with the terms outlined in the underlying agreements—such as , delivery note, purchase receipt, goods received notes, etc.

COMPLETION

Which document should be relied upon?

Before determining which documents we should rely on, it's important to first understand the **underlying legal basis**:

All legally valid agreements bind the parties as if they were **law**. This means that once an agreement is made and fulfilled the legal requirements, it becomes enforceable and must be honored by the parties involved.

Art 1338 Civil Code

A valid agreement must **fulfill** these four conditions:

- **Mutual Consent** – Both parties must agree voluntarily.
- **Legal Capacity** – Parties must be legally capable (e.g., adults, not under guardianship).
- **Certain Object** – The agreement must have a clear object.
- **Lawful Cause** – The purpose must not violate law, morals, or public order.

Art 1320 Civil Code

Based on the above, it can be understood that the document which binds the parties as law is the one that meets legal requirements of an agreement. Therefore, **the document does not necessarily have to be in the form of a agreement** – as long as it **fulfills the elements of a valid agreement under the Indonesian Civil Code**, it can serve as an underlying document in any business transaction, which the parties may rely on in the event of a dispute or if things go wrong.

Please also note that certain documents may serve as **supplementary or supporting documents** to the main underlying document, thereby having the same legal force as the main document, provided that **the main document itself fulfill the legal requirements of a valid agreement under the applicable laws and regulations**.



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Don't hesitate to reach out, **we're ready to help!**

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