Investigating the Practice of Financial Accounting Standards for Micro, Small and Medium Enterprise (Msmes): Evidence from Central Kalimantan

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Abstract

This study aims to investigate the application of micro and small business financial reports. The approach taken in this research uses using descriptive qualitative method. Qualitative data through semi-structured interviews were collected from 27 main subjects, namely micro and small businesses. The interview lasted between 45 and 60 minutes, in addition to using observation and documentation techniques to investigate further the role of micro and small business reports as corroborating other forms of evidence. At the same time, the data validation technique uses source triangulation techniques for analysis of data collection, reduction, display and verification. The findings of the results of the investigation of the micro and small business financial reports show that micro and small businesses still need to be more optimal in implementing financial reports following the procedures for Micro, Small and Medium Entity Financial Accounting Standards (SAK EMKM). This is evidenced by 27 micro and small business subjects. Only two small business people were interviewed intensively and implemented the management of recording initial financial reporting activities, namely collecting transaction evidence; 25 other micro and small businesses did not record financial reports. This study contributes to the investigation of the application of micro and small business financial reports in the field by exploring the factors that cause the non-application of financial reports according to the Micro, Small and Medium Entity Financial Accounting Standards (SAK EMKM).

Keyword: Micro and Small Enterprises, SAK EMKM, Financial reports, Investigations

1. INTRODUCTION

Micro and Small Enterprises are the most significant players in the economic sector in Indonesia, which are engaged in trade and services. Data obtained from the Ministry of Cooperatives and Micro, Small and Medium Enterprises shows that the number of Micro, Small and Medium Enterprises (MSMEs) in Indonesia in 2013 was approximately 57 million units, while the number of large businesses was 5,066 units. In 2012-2013, it showed an increase in business units by 2.41%. In contrast, the percentage increase for large businesses is only 1.97%. The data shows that the number of MSMEs is more significant than that of large businesses in Indonesia. That proves that MSMEs are a supporter of the Indonesian economy.¹ In 1997 when the economic crisis occurred, many large companies in Indonesia failed, but MSMEs continued to survive and even experienced growth. That is because small businesses are evenly distributed

¹http://www.depkop.go.id/uploads/txttkgfiles/sandingan_data_umkm_2012-2013.pdf, diakses pada tanggal 04 Februari 2022 pukul 15.00 WIB.
throughout Indonesia, most independent businesses. Although hit by the economic crisis, Micro, Small and Medium Enterprises (MSMEs) still exist and can survive in economic crisis conditions. Several factors include that, in general, MSMEs produce consumer goods and services that are close to the community's needs. In addition, MSME businesses generally utilize local resources for human resources, capital, raw materials, and equipment. That means that MSMEs rely on something other than imported goods. Moreover, the MSME business is generally not supported by bank loan funds but by own or non-bank loan funds. Under these conditions, when the banking sector slumps or interest rates soar, MSMEs are not too affected.

Small businesses are labour-intensive, so they have more opportunities to create more workers. In Indonesia, the population of Micro, Small and Medium Enterprises (MSMEs) in 2010 reached 54,114,82. In 2011, it reached 55,206,444 business units or 99 per cent of the total business units in Indonesia. In 2012 it reached 56,543,592. In 2013 reached 57,895,721, 2014 it reached 57,895,721, and in 2015 it reached 57,900,787. In 2014, the number of workers working in MSMEs reached 91.8 million, or 97.3% of the Indonesian workforce, which amounted to 104,613,681. Micro, Small and Medium Enterprises (MSMEs) in Palangka Raya City are developing, although slowly. From the results of the MSME mapping survey in Palangka Raya City in terms of sector, the distribution of MSME based on the economic sector was divided into 25.62% in the services sector, 20.69% in the trade, hotel and restaurant sector, 17.73% in the transportation and transportation sector communications, 12.32% in the agricultural sector, 11.33% in the manufacturing sector, 7.39% in the financial sector28 and 2.46% in the mining and quarrying sector and the building sector. In 2016, the Office of Cooperatives, Industry and Trade of the City of Palangka Raya only recorded 6,650 MSMEs that registered their business permits, and the number continued to increase yearly.3

MSMEs, on the one hand, have an important role in the development of the Indonesian economy. On the other hand, most MSMEs face many problems. Among them have yet to be able to manage their business properly, so it is common for MSMEs to fail in their business. Business management that needs attention is management in the financial sector. Financial management is essential to apply to micro and small businesses. That is a crucial factor for the success of micro and small businesses and can be used to maintain the sustainability of their business. Accounting financial reports are a reliable tool to reduce the risk of uncertainty in making business decisions. Accounting information in financial reports provides many benefits and is very much needed by micro and small businesses. This study investigates the application of micro and small business financial statements in Palangka Raya, Central Kalimantan.

2. LITERATURE REVIEW

Micro and Small Enterprises (UMK)

The definition of Micro and Small Enterprises is. First, Micro enterprises are productive businesses owned by individuals or business entities with the following criteria: Micro Enterprises as regulated in this law. Second, a small business is a productive economic business that stands alone and is carried out by individuals or business entities. That are not subsidiaries or not branches of companies that are owned, controlled, or become part either directly or indirectly of medium or large businesses that meet the criteria of Small Business as referred to in this law. Meanwhile, the Micro and Small Enterprises criteria are calculated based on their net worth,
excluding land and buildings (Net Worth) and annual sales (turnover). 4 fifty million rupiahs) excluding land and buildings for business premises or having annual sales proceeds of a maximum of Rp. 300,000,000.00 (three hundred million rupiahs). Second, the criteria for a small business are businesses with a net worth of more than IDR 50,000,000.00 (fifty million rupiahs) up to a maximum of IDR 500,000,000.00 (five hundred million rupiahs), excluding land and buildings for business premises. Alternatively, they had annual sales proceeds of more than IDR 300,000,000.00 (three hundred million rupiahs) up to a maximum of IDR 2,500,000,000.00 (two billion five hundred million rupiahs).

Criteria of Micro and Small Enterprises (UMK)

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Net worth</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Micro Business</td>
<td>Max. 50 Million</td>
<td>Maks. 300 Million</td>
</tr>
<tr>
<td>2.</td>
<td>Small Business</td>
<td>&gt;50 Million – 500 Million</td>
<td>&gt;300 Million – 2.5 Billion</td>
</tr>
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Financial statements

The Indonesian Institute of Accountants proposes financial reports, namely: Financial statements are a structure that presents the financial position and financial performance of an entity. According to Munawir, the financial statements generally consist of a balance sheet, profit and loss calculations, and a report on equity changes. The balance sheet shows or describes a company’s total assets, liabilities and equity on a specific date. While the calculation (report) of profit and loss shows the company’s results and expenses incurred during a specific period, the report on changes in equity shows the sources. It uses or reasons that cause changes in the company’s equity. Bookkeeping or financial reports is an activity to record all kinds of financial transactions. These financial transactions can cover several things, such as purchases, sales, income and expenses by individuals, groups, or organisations. 5 Financial statements are the result of the accounting process. The financial reports contain information about the implementation of management responsibilities. Financial statements (financial statements) are management statements about the company’s condition, expressed in currency (rupiah). 6

Financial statements result from recording, managing and examining financial transactions in a business entity designed to make decisions both inside and outside the company regarding the company’s financial position and results of operations. 7 From a financial point of view, financial reports that are made well and externally can be used as a basis for analysing the running of a company. Are they experiencing progress or vice versa, and if they are progressing, is the success already optimal or not?

The Indonesian Accounting Association, on July 17 2009, issued Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP) and was approved by the Financial Accounting Standards Board of the Indonesian Institute of Accountants (SAK IAI) on May 19 2009. IAI issued this standard to facilitate small and medium enterprises (SMEs), accounting for nearly 90% of the total Indonesian companies compiling their financial statements. (Effendi, 2014) Entities that use SAK ETAP in their audit reports state that the entity’s financial statements follow SAK ETAP. Based on SAK ETAP, elements of the report are: Balance Sheet,

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The purpose of making financial reports is to present various information on a business entity’s economic transactions to interested parties, both within the company itself and outside the company. In addition, financial reports are beneficial for planning, controlling, and accountability. Financial reports aim to provide financial information for a company at a particular time and period. Financial reports can provide financial information to parties inside and outside the company who have an interest in the company. Financial reports are to see the company’s financial position. Information regarding the financial position is helpful for interested parties in making decisions. In addition, according to the Indonesian Institute of Accountants, financial reports that are useful for users of information must have four main qualitative characteristics, namely understandability, relevance, reliability, and can be compared.

3. RESEARCH METHOD

The methodology chosen for this research is qualitative. This study uses a descriptive qualitative approach to investigate the application of micro and small business financial statements. Furthermore, a purposive sampling technique was used in this study. Purposive sampling is a technique for data sources with specific considerations from the population who are near, ready, available, or convenient. For three months, personal interviews were conducted at micro and small businesses in Palangka Raya's sub-districts. Resource persons are businesses from several types of businesses.

Data collection and analysis

The process of collecting data on research that researchers carry out must have a method or technique to obtain data or information that is good and structured, and accurate from everything that is studied so that the truth of the data information obtained and accounted for data collection techniques used in this study were observation, interviews, and documentation. In comparison, the data validation technique uses source triangulation techniques. Analysis of data collection, reduction, display and verification. Based on these results, the following research subjects were found in the table below:

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Type of Business</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>SR</td>
<td>Grocery Store</td>
<td>Subject 1</td>
</tr>
<tr>
<td>2</td>
<td>WS</td>
<td>Grocery Store</td>
<td>Subject 2</td>
</tr>
<tr>
<td>3</td>
<td>SP</td>
<td>Grocery Store</td>
<td>Subject 3</td>
</tr>
<tr>
<td>4</td>
<td>JM</td>
<td>Grocery Store</td>
<td>Subject 4</td>
</tr>
<tr>
<td>5</td>
<td>WY</td>
<td>Grocery Store</td>
<td>Subject 5</td>
</tr>
<tr>
<td>6</td>
<td>HK</td>
<td>Grocery Store</td>
<td>Subject 6</td>
</tr>
<tr>
<td>7</td>
<td>TB</td>
<td>Food Stall</td>
<td>Subject 7</td>
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</tbody>
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Table. 2 Subject of Micro and Small Enterprises in Jekan Raya District

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Type of Business</th>
<th>Description</th>
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| 10 | Epi Indriani, *Akuntansi Untuk Orang Awam dan Pemula*, Jakarta: Perpustakaan Nasional RI: Katalog dalam Terbitan (KDT), h. 126-128.
Several themes were generated from interviews and documentation data: understanding of micro and small businesses in recording financial reports, management of financial reports implemented by micro and small businesses, and application of financial reports. Theme 1: understanding micro and small businesses in recording financial reports. In this study, all interviewees agreed that micro and small businesses need help understanding the recording of financial reports.

 [...] As far as I concern, financial reports are like recording expenses and income. [...] (Female, Subject No. 3, Mrs SP). [...] I never took notes because I was busy selling all day. I could say there was no time to take notes [...]. (Female, Subject No. 18, Mrs RN)

Sub-theme 1: is it important to keep financial records for the business being run? In this study, everyone interviewed agreed that it is important to keep financial records for the business being run because this can enable micro and small businesses to evaluate business activities and find out expenses and income every day. Still, they feel disturbed by the financial reports, and some answered that they did not understand how to record good financial reports.

 [...] Important, actually. Yes, we know expenses and income. But I feel dizzy. The first time I sold it, I recorded its price. In the end, I felt bored, so I didn't record it anymore. It bothers me." [...] (woman, Subject No. 1, Mrs SR). [...] Actually important. The reason is that I got capital assistance from Corporate Social Responsibility PT. Telkom, so I must know
how much income, expenses, and initial capital are. But my weakness is not recording all income and expenses because I am lazy [...] (woman, Subject No.2, Mrs WS).

Theme 2: management of financial reports applied by micro and small businesses. In this study, all the people interviewed stated they did not manage properly and correctly. This was evidenced by micro and small businesses needing to implement financial reports properly. Micro and small businesses do not use financial information as a basis for decision-making. Micro and small businesses in making decisions based only on habits from the results of previous experience. This is currently being experienced by micro and small businesses in the city of Palangka Raya, making it challenging to develop and expand their business.

[...] I set aside the money from the sale profit to pay the capital instalment, and for the rest of the profit, I buy goods for shop needs. Thank God it's still running smoothly." [...] (woman, Subject No. 1, Mrs SR). [...] from the beginning, we didn’t have financial management, but still, it can run. There is no budget or targets like other large businesses because we adjust it according to the ability of employees. If employees can print 2000 bricks/day, then we are paid according to their occupation [...] (male, Subject No. 17, Mr RH)

4. RESULT AND DISCUSSION

In this study, informants revealed that micro and small businesses need help understanding the recording of financial reports. Understanding is something that we understand and understand correctly. Someone can be said to understand if he is able to interpret, explain, conclude, rewrite, estimate, or state something in his own way about the knowledge he has obtained. Djuharni defines understanding as the ability to get the meaning of something studied or becomes the focus of discussion. Djuharni also stated that understanding learning outcomes were the highest type of learning when compared to knowledge learning types. Understanding can be categorized into three levels; first, the lowest level is understanding the translation, starting from translating in the true sense, interpreting, and applying the principles. In this case, the business is expected to be able to translate the meaning of accounting as well as understand the applicable financial accounting standards. Second the second level is interpretive understanding, namely connecting the lowest parts by knowing the next part or connecting some parts of the graph with events, distinguishing the main and non-subject parts. At this level, the research subjects provide opinions regarding the recording carried out during business activities and knowledge in classifying parts of financial reports. Third the third level is the level of extrapolation usage. In this case, it means that someone can see behind what is written, estimate and predict based on the understanding and conditions presented in the form of ideas or symbols, and make conclusions related to circumstances and their consequences. From the interview results, the subject has yet to reach this stage.

The researcher concludes that micro and small businesses need help understanding what is related to recording financial reports. Still, on the other hand, they understand that financial reporting is very important to implement. But micro and small businesses experience difficulties implementing financial reports in their business for limited time and lack of human resources because the average business needs employees, so they must run their own business. Furthermore, it is related to business education, so the knowledge gained about managing financial statements still needs to be improved. Then the need for clear goals from micro and small businesses in developing their business.

Micro and small businesses are the most numerous business organisations in Indonesia; with their great contribution to economic development, they are often called the backbone of the economy. In reality, micro and small businesses have problems managing financial reports. This is evidenced by the results of interviews that researchers conducted that, in general, the practice of micro and small business activities runs without relying on financial information that is arranged in an orderly and orderly manner. Micro and small businesses do not use financial information as a basis for decision-making. Decision-making is only based on habits from the
results of previous experience. Some businesses do not have good and ideal financial management. This is currently being experienced by micro and small businesses in the city of Palangka Raya. It is difficult to develop and expand their business. If associated with the theory, the purpose of managing the report itself is very important, which is useful for businesses in viewing financial position in decision making. Micro and small businesses in the city of Palangka Raya are indeed running but seem to be in place; from year to year, they are just like that without any significant development. Even with good financial records and management, it will be easy to know the development of the business and all its problems.

The results of the interviews found that in terms of planning, micro and small businesses lacked clear and directed business planning. As in managing the finances of micro and small businesses, businesses must plan to use money as well as possible and only waste business money with clear planning. Then in managing the finances of micro and small businesses, personal money is often mixed up with business money. This is a mistake that is often made by most small-scale businesses because they think that it is okay to mix personal money with business money. However, if this mixing continues, later, it will be difficult for businesses to separate personal and business money, which will result in the use of business money for personal needs. So physically separating personal money and business money is very important.

If you look at the effect of the absence of financial reports for micro and small businesses, you need to know how their business is developing. Furthermore, if you do not have good financial reports, the business cannot know the assets and liabilities it has. As a result, businesses will find it challenging to manage their finances, which will result in difficulties in developing the business in the long run. Then if there is a possibility of fraud or deceit committed by micro and small businesses, for example, experiencing bankruptcy or being affected by a disaster so that they cannot return the loan funds provided by creditors to micro and small businesses, then this will be detrimental to the creditor if the business disappears and does not pay the loan money which is given because there are no financial reports that can be seen to confirm the statements of these micro and small businesses.

The findings of the investigation show that the obstacles faced by micro and small businesses in the application of financial reports in accordance with Financial Accounting Standards Without Public Entities (SAK ETAP) found several things; firstly, the lack of competence of human resources in this case, the educational background, the limitations of employees which make the implementation of financial reports not run optimally. Second, it shows that there is a lack of understanding and perceptions of micro and small businesses about the importance of applying to account in financial reports, so the interview results found that applying financial reports burdens businesses and assumes that businesses only spend a lot of time or are in vain. Third, the need for more outreach and training regarding financial reports based on Financial Accounting Standards Without Public Entities (SAK ETAP). Fourth, micro and small businesses have yet to find the urgency of business needs in applying financial report accounting and, finally, the lack of data that supports the process of preparing financial reports for micro and small businesses.

5. CONCLUSION

The results of an investigation into the application of micro and small business financial reports found that micro and small businesses still need to be more optimal in recording and managing financial reports based on financial accounting standards without public entities (SAK ETAP). This is evidenced by only one subject making records, and even then, only records are straightforward and not in accordance with the provisions of the proper financial reports. Constraints are limited time and human resources because the average business runs its own business. Associated with diverse business education, the knowledge gained about managing financial reports still needs to be improved. As well as the lack of socialisation and training regarding financial reporting, the lack of supporting data regarding the financial reports of micro
and small businesses has yet to find the urgency of business needs in implementing financial reports on micro and small businesses.

6. REFERENCES

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