

**Preparation of Financial Statements Based on Financial Accounting Standards for Micro, Small and Medium Entities**

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**Abstract**

This research aims to produce a financial report of micro Small and medium enterprises (MSMES) based financial accounting standards of Micro small entity (SAK EMKM). This objective is based on existing conditions where SMES activities are running without relying on the information of financial statements that are arranged in an orderly and orderly manner based on standards. This type of research is qualitative research. This research uses primary and secondary data types. The sample used in this study was the SMES of the TELKOM Community Development Center Partnership and Community Development Program Unit for a similar food industry sector. The results showed that the financial statements were prepared through the stages of recording financial transactions and summarizing. Financial statements based on SAK EMKM compiled consist of statements of financial position, income statement, and notes to financial statements.

Keywords : financial statements, SAK EMKM

**INTRODUCTION**

Micro, small and medium enterprises (MSMEs) are one of the potential small-scale businesses that can be managed by individuals or groups with capital that is mostly private property. Many of the entrepreneurs in Indonesia choose MSME as a business and business because it is easy in terms of management. This makes UMKM increasingly developing in Indonesia which is proven to have encouraged and stimulated national economic growth on an on going basis ([Http://iaiglobal.or.id/v03/majalah-akuntan/home](http://iaiglobal.or.id/v03/majalah-akuntan/home), no date).

The number of UMKM business units has a role in the economy that absorbs labor, contributes to the formation of the national Gross Domestic Product (GDP) and contributes to the value of exports, and was known in 1997 when the MSME economic crisis could survive and continue to exist in the national economy (Azis and Rusland, 2009). Therefore, support for the MSME sector is important in the economy as a key to economic recovery (Technology, 2014).

To be able to grow and develop, micro, small, and medium businesses require substantial capital (Kecukupan and Terhadap, 2017). Funding is one of the most important aspects for the company. If the company experiences obstacles in financial matters, the company will have difficulty growing, MSMEs are no exception (Rochadi, 2011). For this reason, MSMEs require additional capital by obtaining loans or credit from banks or other financial institutions. The government facilitates SMEs related to bank loan funds with the People's Business Credit program for micro small and medium businesses. It's just that often lending is constrained because in general MSMEs do not have transparent and organized financial information or reports that cause banks to have difficulty in obtaining information about financial and business conditions from MSMEs. This condition also makes it difficult for banks to minimize the risk of defaults on loans that can be distributed to MSMEs.

MSMEs are included in the government's economic development work program. However, the development of MSMEs today still faces many obstacles, one of which is capital. Submission of credit for additional capital is often constrained because one of the conditions that must be met is the inclusion of financial statements that are in accordance with the standard. Many MSMEs are not able to prepare financial reports. Recording is only limited to

the amount of money received and issued, the amount of goods purchased is recorded in a makeshift format. The inability of MSMEs to do financial records and reports is one of the factors that inhibits business growth and development. Although some have carried out accounting records and made financial reports, in terms of percentage it is still very small (Hani, Krisnawati and Sembiring, 2018).

Actually, the Indonesian Institute of Accountancy has compiled a very good format to assist MSMEs in recording and reporting called Entity Financial Accounting Standards without Public Accountability (SAK ETAP) but many MSMEs have not implemented it because they are considered to be time-consuming because they have to make financial transaction log books and financial statements every month. (Salatiga, no date) also mentioned in his research that the time available is more focused by MSMEs on operational activities rather than to make financial reports. In addition, in general most MSMEs only record the amount of goods bought and sold, the amount of money received and issued, the amount of receivables and debts, and combining business assets with personal assets, so that with this condition it is difficult to know the accuracy and certainty of the UMKM's net income. Research result (Ardila, Muhammadiyah and Utara, 2018) shows that this is due to several factors namely lack of accounting knowledge, low levels of education, and MSME actors also assume that financial reports are only for large-scale companies. The results of the study (Saragih and Surikayanti, 2015) also stated that MSME entrepreneurs recorded their businesses but still in a simple form that was not in accordance with applicable accounting standards

There are still many MSMEs that have not been able to make and compile financial reports with SAK ETAP, so the Indonesian Institute of Accountants (IAI) compiled a simpler SAK namely Financial Accounting Standards for Micro, Small and Medium Entities (SAK EMKM) which are effective per 1 January 2018. SAK EMKM ini sengaja dibuat sederhana agar menjadi Standar akuntansi yang mudah dipahami oleh sekitar 57,9 juta pelaku UMKM dan diharapkan dapat menjadi salah satu pendorong literasi keuangan bagi UMKM di Indonesia sehingga memperoleh akses yang semakin luas untuk pembiayaan dari industri perbankan ([Http://iaiglobal.or.id/v03/majalah-akuntan/home](http://iaiglobal.or.id/v03/majalah-akuntan/home), no date). By having financial reports, the MSME will know the financial condition, business development and progress, and also as a basis for making decisions for the future of MSME. In addition, when MSMEs need capital to expand their businesses, it is easier to submit loans to banks with their financial statements.

## **LITERATURE REVIEW**

### **1. Micro small and Medium Enterprises**

MSMEs are productive businesses that meet business criteria with certain limits on net worth and annual sales results, and MSMEs are not subsidiaries of a company or a branch of a company, either directly or indirectly part of the company according to predetermined criteria. Definition of Micro, Small and Medium Enterprises in the Law of the Republic of Indonesia No. 20/2008 Article 1, namely: 1) Micro businesses are productive businesses owned by individuals and / or individual business entities that meet the criteria for Micro Business as stipulated in this Law. 2) Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly of Medium Enterprises or Large Enterprises that meet Small Business criteria as referred to in this Act. 3) Medium Business is a productive economic business that stands alone, which is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or becomes a part either directly or indirectly with a Small Business or Large Business with the amount of wealth net or annual sales results as provided for in this Law (Rahmat, Yang and Esa, 2008).

According to Bank Indonesia in a business perspective, MSMEs are classified into four groups, namely: 1) Informal sector MSMEs, for example street vendors. 2) Micro MSMEs are MSMEs with the ability of the nature of craftsmen but lack the entrepreneurial spirit to develop their business. 2) Dynamic Small Business is a group of MSMEs that are capable of

entrepreneurship by establishing cooperation (accepting sub-contract work) and exports. 3) Fast Moving Enterprise is an MSME that has competent entrepreneurship and is ready to transform into a big business (Bank Indonesia, 2015).

## **2. Financial Accounting Standards for Micro, Small and Medium Enterprises**

Financial Accounting Standards (SAK) is a Statement of Financial Accounting Standards (PSAK) and Interpretation of Financial Accounting Standards (ISAK) issued by the Indonesian Accountants Association (DSAK IAI) Board and the Sharia Standards Board of the Indonesian Accountants Association (DSAS IAI) and capital market regulatory regulations for entities under their supervision. Indonesia has four types of accounting standards that apply in Indonesia, namely; SAK (Financial Accounting Standards), SAK-ETAP (Financial Accounting Standards for Entities without Public Accounting), PSAK-Sharia (Statement of Islamic Financial Accounting Standards), SAP (Government Accounting Standards).

IAI then compiled SAK that was simpler than SAK-ETAP, namely SAK EMKM in mid 2015. This was due to the fact that there were still many MSMEs in Indonesia that were unable to prepare and compile financial reports in accordance with the applicable SAK. The Small and Medium Entity Financial Accounting Standards (SAK EMKM) is one of the encouragement for entrepreneurs in Indonesia to be able to contribute significantly in the development of more advanced MSMEs. The main difference between SAK ETAP and SAK EMKM is that SAK EMKM is intended for entities that do not have significant public accountability that meet EMKM definitions and characteristics in accordance with EMKM regulations in Indonesia (Ikatan Akuntan Indonesia, 2018).

## **3. Financial Statements based on SAK EMKM**

Financial statements are important in a business. Surely every expenditure and income must be clear and must be balanced so that the business can be more advanced. MSME financial reports have been prepared in detail at SAK EMKM where the presentation must be consistent, comparative financial information, and complete. The minimum financial statements consist of Statements of Financial Position, Income Statement, and Notes to Financial Statements.

The Financial Position Report consists of information about the assets, liabilities and equity of the entity as of a certain date presented in this report. An EMKM income statement includes information about income, financial burden and tax burden on an entity. In accordance with SAK EMKM, the income statement includes all income and expenses recognized in a period, unless SAK EMKM requires otherwise. Notes to financial statements prepared in SAK EMKM must contain: A statement that the financial statements have been prepared in accordance with SAK EMKM, Summary of accounting policies, and additional information and certain account details that explain important and material transactions so that it is useful for users to understand financial statements. Notes to financial statements prepared in SAK EMKM must contain: A statement that the financial statements have been prepared in accordance with SAK EMKM, Summary of accounting policies, and additional information and certain account details that explain important and material transactions so that it is useful for users to understand financial statements (Ikatan Akuntan Indonesia, 2018).

## **METHOD**

MSMEs that are the object of this study are from the similar food industry sector. The type of research used is qualitative research. The type and source of research data obtained from secondary data and primary data with data collection techniques through interviews, documentation, and observation. Data analysis uses an interactive analysis model consisting of data reduction, data presentation, and drawing conclusions and verification.

**DISCUSSION**

This study is a continuation of previous research related to the perceptions of MSMEs in the Partnership Program and Community Development Unit TELKOM Community Development Center on financial statements based on Financial Accounting Standards (Ardila, Muhammadiyah and Utara, 2018) which shows the results that MSMEs generally do not care and are unable to prepare financial reports. Therefore, the researcher seeks to compile the financial statements of the MSME food industry sector that starts from the process of recording financial transactions, namely as the initial stages of financial transactions that must be accompanied by evidence in the form of receipts, receipts, invoices, notes, and others. . Furthermore, making records in a journal in accordance with the order of the transaction date in an accounting period. After that, it is posted to the ledger to classify each account that has been recorded in the journal.

After classifying or grouping transactions according to their respective groups of accounts and obtaining a balance calculation for each account, then the balance is summarized into the trial balance before adjustment. Adjustments need to be made for several transactions by keeping adjusting entries. After that, all adjusting entries are posted to the general ledger and a trial balance is prepared after adjusting the general ledger accounts.

The final stage is preparing the MSME financial statements based on SAK EMKM, including; Financial Position Report, Income Statement, and Notes to Financial Statements in accordance with SAK EMKM.

**Financial Position Report**

Based on SAK EMKM, the statement of financial position presents information about current assets and non-current assets, short-term and long-term liabilities separately, and equity at the end of the reporting period. MSME Financial Position Report The food industry sector can be seen in the table below:

MSME Food Industry Sector Statement of Financial Position As of Desember 31, 2018 And 2017			
<b>ASSETS</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalent	3	65.217.875	47.525.100
Account Receivable	4	27.434.500	20.920.225
Inventory		89.515.375	65.025.000
Prepaid Expenses	5	35.930.000	36.775.450
Fix Assets	6	213.035.000	213.035.000
Accumulated Depreciation		(5.900.500)	(7.570.500)
<b>Total Assets</b>		<b>389.338.180</b>	<b>375.710.275</b>
<b>LIABILITIES</b>			
Account Payable		39.493.750	37.420.000
Bank Payable		15.000.000	17.000.000
<b>Total Liabilities</b>		<b>54.493.750</b>	<b>52.420.000</b>
<b>EQUITY</b>			
Capital		304.486.450	303.290.275
Retained Earning		30.357.980	20.000.000
<b>Total Equity</b>		<b>334.844.430</b>	<b>323.290.275</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>389.338.180</b>	<b>375.710.275</b>

**Income statement**

The information presented on the income statement includes income accounts, financial expenses, tax expenses, and profit or loss from the company. MSME Financial Position Report The food industry sector can be seen in the table below:

MSME Food Industry Sector Financial Statements For The Year Ended, Desember 31, 2018 And 2017			
	Catatan	2018	2017
Net Sales	7	168.333.000	155.000.500
Cost of Good Sold	8	122.899.450	120.449.000
<b>Gross Profit</b>		<b>45.433.550</b>	<b>34.551.500</b>
<b>OPERATING EXPENSE</b>			
Operating expense		6.596.500	5.596.000
Other Expense		930.050	1.050.000
<b>Total Expense</b>		<b>7.526.050</b>	<b>6.647.000</b>
<b>Income Before Tax Expense</b>		<b>37.907.500</b>	<b>27.904.500</b>
Income Tax Expense		5.686.125	4.185.675
<b>Income After Tax</b>		<b>32.221.375</b>	<b>23.485.825</b>

**Notes to Financial Statements**

The notes to MSME financial statements are based on information obtained from companies that contain statements that the reports have been prepared in accordance with SAK EMKM, a summary of significant accounting policies that have been applied, and the basis of measurement used in the preparation of financial statements, among others ; 1) contains general information on the establishment and other relevant information, 2) Summary of significant accounting policies, 3) cash and cash equivalents include all unrestricted cash on hand and deposits 4) Collectibility of trade and non-trade receivables is reviewed on an ongoing basis, Debts which are known to be uncollectible are written off by reducing the carrying amount directly.5) Expenditures which are considered to have a benefit of more than one year are deferred and amortized using the straight-line method over the periods in which the benefit is realized, 6) The Company has chosen to adopt the cost model, accordingly, the Company's fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, 7) Trade payables represent payables to third parties for the purchases of raw materials, packaging materials, indirect materials and finished goods for sale, 8) Sales details, 9) Details of cost of goods sold.

**Conclusion**

Based on the discussion that has been explained, it can be concluded that the financial statements of the UMKM Partnership Program and Community Development Unit TELKOM Community Development Center compiled based on SAK EMKM are carried out through the process of recording financial transactions and summarizing. The research focuses on similar food industry businesses so that the figures generated are generalizations of similar companies.

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