



Review the Readiness of MSMEs in Indonesia Compliance with Accounting Standards Micro, Small and Medium Enterprise (SAK EMKM)

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Abstract

This research demonstrates that despite being late to have financial reporting standards for Micro, small and medium enterprises which could help MSMEs in Indonesia in funding and for tax purposes, the willingness and readiness of the business are still questionable. This paper will first discuss a new accounting standard ruled by The Indonesian Institute of Accountants (IAI) for micro, small and medium enterprise (MSMEs) (SAK EMKM) that was adopted from IFRS and then discuss the readiness of the business to implement it. This research uses the qualitative approach with the method of in-depth interviews. From the results of interviews with several business actors, some major issues were found, such as, in general, SMEs do not make a financial record of business, the cause is the lack of human resources owned SMEs to prepare financial statements.

INTRODUCTION

Every organization that runs a business is suggested to have accounting reporting to help analyze their financial situation, therefore it could help in making better decisions (OECD, 2017). However, for micro, small and medium enterprises (MSMEs), it is not something they might need. This is because, they do not have stakeholders who care about it or even that they do not need it for making business decisions (Bakos, 2014). Micro, small and medium enterprises are owned businesses; therefore, all the decisions are made by the owner which guarantees that all of it would benefit the owner. Consequently, the number of MSMEs who have accounting reporting is very small.

The Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or IAI) has released a new standard for micro small and medium enterprise regarding the preparation of financial reporting (SAK EMKM). According to The Indonesian Institute of accountants, the purpose of the standard is to help MSME business to be able to apply for funding from other parties or even as a basis for tax reporting (Dewan Standar Akuntansi Keuangan, 2016). The standard would be effective on 1st January 2018. The standard is made for micro, small and medium entities that are ruled in Indonesian Legislation.

Despite the purpose of the standard and how near the effective date is, it seems that the MSMEs in Indonesia has not yet prepared for it. It could be because of a lack of socialization about the standard and lack of training for the business (Deaconu and Buiga, 2015). With reference to the problem highlighted above, this study has the following

objectives: to determine the accounting practices of MSMEs in Indonesia and to determine the needs and readiness of MSMEs to follow the standard.

The existence of MSMEs has a strategic role in economic growth and reducing unemployment. MSMEs also contribute to the gross domestic product (GDP) of 57-60% and absorb the workforce up to 97% (Ikatan Akuntansi Indonesia, 2017). The development of MSMEs in Indonesia is also inseparable from the banking support in lending. However, only 30-40% of MSMEs have access to finance through banks (Ikatan Akuntansi Indonesia, 2017). The cause of low MSMEs access to banking is alleged because MSMEs does not yet have a good financial administration record like a formal company (Ploybut, 2012). The dominant financial management of SMEs is still managed traditionally that has not separated the personal wealth from the wealth of his business. To help MSMEs achieve bankable status, IAI publishes SAK EMKM to facilitate and encourage business actors to access financing through banking.

To overcome these problems, through the Department of Cooperatives and MSMEs in cooperation with educational institutions need to do socialization and assistance to the users of MSMEs in the preparation of financial statements. If necessary, make a core legislation to require MSMEs to prepare financial statements like cooperatives that must perform annual member meetings regularly.

LITERATURE REVIEW

Accounting standard for MSMEs

According to Indonesian Legislation no. 28 the year 2008 Micro Small and Medium Enterprise could be defined as follows:

- a) Micro Business is a productive enterprise owned by an individual person and/or business entities that meet the criteria of Micro Business which have a net worth of maximum 50 million rupiah and sales maximum 300 million rupiahs.
- b) Small Business is a productive economic enterprise that stands alone, by individuals or bodies business that is not a subsidiary or not a company branch owned, controlled, or become part directly or indirectly from the Business Medium or Large Business that meets the Business criteria Small which have net worth 50-500 million rupiah and sales maximum 300 million to 2,5 billion rupiah.
- c) Medium Enterprises is a productive economic enterprise that is stand-alone, conducted by an individual or a person a business entity that is not a subsidiary or a company branch owned, controlled, or become part directly or indirectly with the Business Small or Large Business with net worth 500 million to 10 billion rupiah and amount annual sales 2,5 to 50 billion rupiah

IAI's Financial Accounting Standards Board (DSAK) approved the Exposure Draft of SAK EMKM on May 18, 2016. With the adoption of ED SAK EMKM, the financial accounting standard in Indonesia will be complete with three pillars of financial accounting standards, IFRS-based General SAK, SAK ETAP (Entity Without Public Accountability), and SAK EMKM.

Each of the main pillars is infrastructure support in the context of financial accounting standards that can reflect the essence of business entities in Indonesia. IFRS-based is a financial accounting standard that governs the accounting treatment for transactions conducted by entities with significant public accountability, such as issuers in the Indonesia Stock Exchange (Winarningsih et.al, 2016). SAK ETAP is a financial accounting standard intended to be used by entities without significant public accountability but publishes general-purpose financial statements for its users (Winarningsih et.al, 2016). The SAK EMKM is intended to meet the financial reporting needs of micro, small and

medium entities (Winarningsih et.al, 2016). However, do Indonesian MSMEs business need the standard? Do they know this standard? Do they know how to make one?

Based on past research that discussed about the effectiveness of accounting standards for entity without public accountability (SAK ETAP) which at that time MSMEs still included in the criteria stated that most of the entities were not compliant with the standard due to the lack of knowledge in regard to preparing accounting standards because they do not have a background in the area and no human resource who was applicable to do it for them (Faturokhman et.al, 2015). This is acceptable because for that business they employ someone who can do accounting reporting but who can sell their product best. But recent research found that The MSMEs need people who can prepare accounting reporting for value added to their business and the business knew about this (Narsa et.al, 2012). However, the business could not prepare the reporting because they did not have time (Narsa et.al, 2012). The MSMEs business mostly is family-owned businesses which means that all the family members are involved in business daily activities, this could be one of the reasons why they could not have time to create the reporting. Other reasons are that the Business does not know how to start and for when they need the accounting reporting for, this issue is in line with lack of acknowledgment but it is more about the lack of socialization from the regulator (Narsa et.al, 2012). The regulators, in this case, are IAI, need to ensure that all MSMEs know the standard by having campaigns or seminars about the standard. This could help in identifying the level of knowledge of the business as well as to gather information on what to improve in the future for better standards.

METHODOLOGY

This type of research is literature research or literature review. The data used in this study is secondary data in the form of books, scientific articles, or other scientific sources. Data collection methods used in this study is the method of documentation by digging literature data related to the research. Data are analyzed by making simple conclusions from other articles and writing sources. In this research, researchers compared the MSMEs accounting standard to an entity without public accountability. The reason because both standards are merely new and have the same reason which is helping medium-size business to have accounting reporting.

RESULT AND DISCUSSION

Through this research, the author reviews several research articles related to the accounting standards for MSMEs. The result shows that the MSMEs standard made by IAI compliance might become entity without public accountability standard (SAK ETAP) which effective on 1st January 2017 which until now still has not had any impact.

Statement of results

Summary of previous research results can be seen in the table below:

No	Author	Title Research	Results
1	1. I Made Narsa 2. Agus Widodo 3. Sigit Kurnianto	Reveals the readiness of SMEs in the implementation of financial accounting standards entity without public accountability (PSAK ETAP) to improve access to banking capital	From the results of the study researchers, constraints MSME does not have financial statements in accordance with SAK-ETAP are: 1. Absence of good and orderly transaction records 2. The absence of such transaction records is because most of the SMEs do not understand the form of financial transaction records like what

No	Author	Title Research	Results
			3. Because of the lack of understanding, it raises the perception that financial records are complex and difficult to apply to their business 4. There is a perception that without any financial statements, business continues to run and earn income
2	1. Agus Faturakhman 2. Novita Puspasari 3. Margani Pinasti 4. Kiky Sri Rejeki	University's One Stop Accounting Service For SMEs: A Solution to Overcome the Reluctance of Small and Medium Businesses (Ukm) Implement Financial Accounting Standards Entity Without Public Accountability (Sak Etap)	The results show that SMEs in Banyumas do not apply SAK ETAP because: 1. Lack of skills in accounting 2. Lack of funds to hire accounting staff 3. No time to learn accounting
3	1. Armando, Zipo Rohman	Exploration And Accounting Remodeling In Small and Micro Enterprises (SMEs)	The results of the research show that the accounting activity in micro business is very low. This is because: 1. Accounting activities are not important 2. Low level of education and training of owners of accounting 3. Enterprises focus more on production and marketing than on accounting.
4	1. Kawalpreet Singh Chhabra 2. J K Pattanayak	Financial Accounting Practices Among Small Enterprises: Issues and Challenges	The results of the research revealed that most small-scale units lack knowledge of accounting, the difficulty of time management in preparing financial statements.

Explanatory text

Financial Accounting Standards Entities Without Public Accountability (SAK ETAP) prepared by IAI are expected to assist MSMEs in the preparation of financial statements, but in fact its existing SAK ETAP are not fully utilized by SMEs, The results of several literature studies proved that there are still many SMEs that do not make financial reports, which is caused by a lack of knowledge and understanding of business actors in preparing financial statements. It can be concluded that the accounting standards prepared for MSMEs is less effective as evidenced by the low MSMEs who can access banking financing simply because of difficulties in presenting the financial statements. The results of Chhabra and Pattanayak (2014) research indicate that the biggest obstacle in the application of accounting standards for MSME is the difficulty in time management to prepare financial statements (Chhabra and Pattanayak, 2015). Complexity is also supposed to be the cause of businesses reluctant to present financial statements of its business.

Discussion

To facilitate MSMEs in preparing financial statements, IAI's Financial Accounting Standards Board (DSAK) has approved the Exposures of Financial Accounting Standards of Micro, Small and Medium Enterprises (ED SAK EMKM) on May 18, 2016, and effective January 2018. DSAK SAK EMKM which is much simpler than SAK TAP. The SAK EMKM is intended to meet the financial reporting needs of micro, small and medium entities.

As easy as any Accounting Standard is prepared, but if there is still a paradigm of MSME actors who assume that the recording of business finance is not important, it will also not be effective implementation, because there are still MSMEs business actors who assume that accounting activities are not important, they focus more on the affairs production and marketing. In addition, the cost to pay for accounting services is also the reason for some business people to make their financial statements.

Therefore, support from the government to socialize intensively and assist SMEs in preparing its financial reporting, for example by providing free financial reporting consultation services, mentoring of SMEs from the financial management side, making electronic application of financial statements that facilitate the business to prepare financial statements, provides motivational seminars to change the paradigm of SMEs the importance of financial statements for MSMEs as a condition to access financing to the banking industry.

In addition, based on past literature, even the standard is hard to follow the business but once they understood and do it right the business could see the impact (Narsa, Widodo, & Kurnianto, 2012). For example, the business who compliance with the accounting standard could easily apply for funding because they already have a good record about their financial condition and have better decision making to improve their business because from accounting report they can analyze their business performance.

CONCLUSION

Accounting standard for MSMEs created by IAI indeed have good reasons behind it. However, the fact that the community who are going to comply with the standard have limited knowledge about it would bring negative impacts once the standard is effective. As discussed above there are several reasons why the standard might not be used as needed such as, the lack of education, lack of training and lack of support by human resources. Therefore, The IAI need to do some activities to minimizes the impact of those problems.

These are components or actions that need to be done in order to do achieve the aim of the standard such as; a) Seminar; this is needed to socialize to the business and to introduce the standard; b) Training; due to the shortcoming of the workers, the needs of training in regard to compliance with the standard is high; c) Motivation; word of encouragement is important to develop desire to do better by giving the business reason why they need accounting reporting for their business; d) Easy Guideline; The IAI need to ensure to have guideline that everyone (non-accounting background) could understand therefore it increases the willingness to comply the standard.

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