

UDC 336

## THE PREPARATION OF FINANCIAL REPORTS BASED ON THE MICRO ENTITIES OF SMALL AND MEDIUM FINANCIAL ACCOUNTING (SAK EMKM) IN MUNCUL KICAU MICRO BUSSINESS

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### ABSTRACT

This study aims to understand: (1) the process of preparing financial statements in Chirping Micro Enterprises, (2) the constraints experienced by owners in preparing financial statements, and (3) how financial statements should be made by the owners according to the financial statement format in SAK EMKM. This type of research is descriptive qualitative by collecting data, analyzing data, interpreting data, and ending with conclusions based on data analysis. The results of the study show that (1) the process of preparing the financial statements of Micro Business Appears Chirping is done by the owner in a simple way that is only making a cash register in and out daily; (2) the obstacles experienced by Chirping Micro Business in preparing financial reports in accordance with SAK EMKM are: (a) micro businesses do not have special employees in the section of financial records (financial administration), (b) competence in Human Resources (HR) which still low, and (c) bookkeeping (accounting) is a process that takes the owner's time; (3) Preparation of financial statements in accordance with SAK EMKM on Micro Business Emerging Chirping consists of: (a) income statement with a total profit of IDR 2,036,000.- (b) statement of financial position with total assets of IDR 20,682,500 and total debt and capital of IDR. 20,682,500 (c) Notes to the financial statements.

### KEY WORDS

Financial Report, SAK EMKM, Muncul Kicau micro bussiness

Today the development of forms of financial reporting is very rapid. Initially, financial statements tend only contain quantitative information about financial position, financial performance, cash flow, changes in equity and an explanation of financial statements only. But along with the development of the times, the current financial statements are not only contain quantitative information, but also contain qualitative information. Integrated Reporting (Integreted Reporting) is the latest development of the form of financial statements that are able to integrate the needs of users of financial statement information regarding financial and non-financial data from a business entity that is summarized in one report form (Demirel and Erol, 2016; Barth, et al, 2017; du Toit, et al, 2017).

Research was conducted by Gilaninia (2013) shows that financial statements actually affect the information obtained by a company's management. In addition, Osadchy, et al (2018) revealed that financial reporting and analysis can serve as a tool to identify problems, manage financial (economic) activities of the company, be a reference in choosing directions for investment, and be able to reflect indicators of company performance in a certain period. So, through good financial reporting, a company can always make business decisions by considering the capacity of its resources appropriately so that it can achieve the targets that have been set previously (Musah, 2017).

The importance of using financial statements in business, actually not only felt by large scale companies. Small scale companies such as UMKM also felt the benefit from financial reporting activities. The Research were conducted by Akhtar and Liu (2018) shows that 94 UMKM in Pakistan have taken financial records and analyzed financial reports produced for business decision making. Seman, et al (2019) revealed that the majority of micro businesses located in Johor have carried out an accounting cycle, starting from recording the

microfinance transactions on a daily basis to the process of preparing financial statements at the end of the period. Financial reporting is used by owners to evaluate business performance periodically (Aladejebi and Oladimeji, 2019).

A good accounting bookkeeping with adequate preparation is actually able to function as a UMKM lever in monitoring, evaluating businesses and making it easier for UMKM to access credit from banks so that they can ultimately improve the financial performance of UMKM (Agbemava, et al, 2016; Abayomi and Adegoke, 2016).

However, the importance of bookkeeping is not fully understood by the UMKM. The Research which conducted by Zotorvie (2017) on 225 UMKM in Ghana shows that the majority of UMKM do not maintain complete accounting records and do not make financial reports in daily business operations. The UMKM prefer to use a manual recording system to document financial transactions (Ankrah, et al, 2015). UMKM was found not to have accounting employees trained in recording financial transactions, designing accounting systems, and reviewing existing accounting systems making it difficult for UMKM practitioners to carry out financial reporting processes properly.

The facts above are a phenomenon of financial reporting practices that occur in small scale businesses such as UMKM. The author was interested in examining more deeply about how the practice of preparing financial statements in one of the micro businesses in Indonesia. Currently in Indonesia there have been published Financial Accounting Standards for Micro, Small and Medium Enterprises (SAK EMKM) issued by the Indonesian Institute of Accountants (IAI), intended for use by small and medium-sized entities such as UMKM (IAI, 2016). Based on the above background, the formulation of the problem in this study are: (1) how is the process of preparing financial statements in muncul kicau micro business?, (2) what obstacles are experienced by the owner in the process of preparing financial statements ?, and (3) how financial statements should be made by the owner according to the format of the financial statements in SAK EMKM ?. The purpose of this study is to understand: (1) the process of preparing financial statements in muncul kicau micro business; (2) the constraints experienced by the owner in the process of preparing financial statements; and (3) how the financial statements should be prepared by the owner according to the financial statement format in SAK EMKM.

## **METHODS OF RESEARCH**

This research was conducted in the muncul kicau micro business Micro Business engaged in the trade of birds, cages, feed, and other accessories in the district. Sukodono, Sidoarjo Regency, East Java, Indonesia. The study was conducted in January - March 2020.

This type of research is qualitative research. Qualitative research is based on the philosophy of constructivism which assumes that reality is plural, interactive and an exchange of social experiences interpreted by individuals. Qualitative research is aimed at understanding social phenomena from the perspective of the participant's perspective. Participants are people who are invited to interview, observed, asked to provide data, opinions, thoughts, perceptions (Sukmadinata, 2011).

Types and sources of research data obtained from primary data and secondary data. Primary data were obtained from interviews with research informants, documentation, and observations on the micro businesses studied. Secondary data was obtained from the documentation of the microbusiness daily financial records book that was studied. The research informants consisted of 2 people: Mr. Imam Syafii (business owner) and Mrs. Ratna (financial department). Whereas for data analysis the results of the study used an interactive analysis model consisting of three components, namely: (1) data reduction; (2) data presentation; and (3) drawing conclusions and verification.

## **RESULTS AND DISCUSSION**

Based on the results of observations and interviews where found that the process of preparing the financial statements of Muncul Kicau micro businesses carried out by the owner's wife by recording cash in and cash out on a simple notebook.

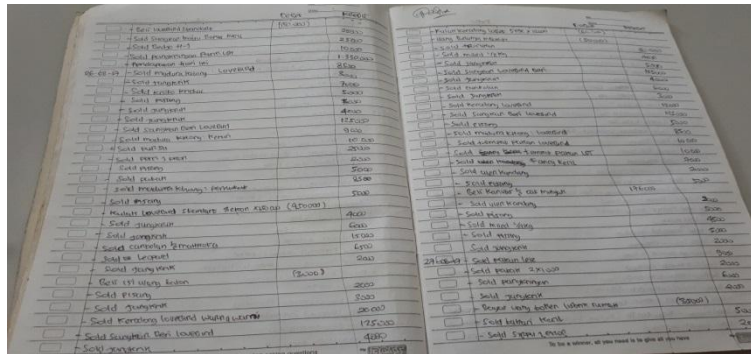


Figure 1 – Financial Reports of Muncul Kicau Micro Business

Business transactions carried out in cash (cash). Customers who come to buy merchandise can bring merchandise once the cash has been handed over to the owner's wife. Every transaction, both merchandise sales transactions and purchases of merchandise to suppliers, does not use a receipt as proof of transaction. The owner's wife immediately records the money that came in the credit column, and records the money that came out in the debit column once the transaction is done. Recording like this is done every day and not waiting for the end of the day. The total of incoming and outgoing money is the final output of the accounting process carried out by the owner's wife. The output from this listing is reported to the owner for evaluation every month. According to the understanding of the owner's wife, the profit and loss of the bird, cage, feed, and accessories trading business can be known every month based on the difference between the incoming and outgoing money recorded in a notebook. If there is more money than the excess is the residual results of operations that can be used by business owners to be used in meeting the needs of daily life (Figure 1.). This shows that the recording of financial statements in micro businesses is still done manually and uses a single entry system (Ernest, 2018).

The process of recording is carried out by micro businesses up to 2018. In 2019 the owner's wife no longer carried out the process of preparing financial statements as presented in Figure 1 above, but rather relies on the memories of the owner. This is supported by the results of research conducted by Arena, et al (2017) which states that accounting that is developing in the UMKM business in Madura which; is currently using mind (memory). Recording like this implies that fortune is not mathematics to be reckoned with. Accounting is interpreted in the form of mutual trust between traders and buyers. The owner revealed that the micro-scale business can actually be recorded only through memory because it is considered quantitatively still able to be remembered in the memory of the human brain (Hafni, 2017). This contradicts the research of Rahamon and Adejare (2014) which states that even though the business is run is still on a micro-scale business, businesses must continue to apply accounting practices correctly in accordance with applicable accounting standards in order to always maintain financial performance so that the business can continue to grow.

Based on the results of the interviews it was found that there were several obstacles that caused the micro business appears Chirping still had not compiled financial reports in accordance with SAK EMKM.

Human resources are one of the main factors that determine the success of an entity's business. The owner revealed that the main obstacle of Muncul Kicau Micro Business in preparing financial statements in accordance with SAK EMKM is the HR factor. This business does not have special employees who are in charge of keeping books in accordance with SAK EMKM. The process of recording financial transactions has been carried out by the wife of the owner. However, when the number of customers coming to the store is large, often the owner's wife cannot record the transaction because she is busy serving customers who come and also have to double work as a store cashier. Human resource constraints experienced by micro business owners are supported by research conducted by Ezeagba (2017) which stated that the constraints of SMEs in Nigeria in

adopting financial reporting in accordance with applicable accounting standards is the HR factor. UMKM were found with no accounting employees who are trained in recording financial transactions, designing accounting systems, and reviewing existing accounting systems (Ankrah, 2015; Ntim, et al, 2014).

*Income statement:*

Muncul Kicau Micro Business Income statement Period of 2020
<b>INCOME</b> Bird Sales IDR. 9,160,000 Cage Sales IDR. 4,420,000. Feed Sales IDR. 120,000 Accessories Sales IDR. 10,500.  TOTAL INCOME IDR. 13.710.500 <b>LOAD</b> Bird purchase costs IDR. 4,610,000. Cage Purchase Cost IDR. 4,270,000. Feed Purchase Fee IDR. 90,000 Accessories Purchase Cost IDR. 9,500. Store Rental Fee IDR. 1,000,000 Store Electricity Costs IDR. 150,000 Gasoline Cost IDR. 45,000 Salary Fee IDR. 1,500,000 TOTAL LOADS IDR. 11,674,500.  PROFIT LOSS 2020 IDR. 2.036.000,-

*Primary Data Analysis Sources (2020)*

*Financial Position Report:*

Muncul Kicau Micro Business Financial Position Report Period of 2020
<b>ASSET</b> Current assets Cash IDR. 578,000 Savings in Mandiri IDR. 3,250,000. Bird IDR. 1,787,000. Cage IDR. 1,170,000. Feed IDR. 678,500 Accessories IDR. 1,219,000. Total Current Assets IDR. 8,682,500 Fixed assets Motor Vehicle IDR. 12,000,000  Accumulated Motorcycle Depreciation IDR. -  Total Fixed Assets IDR. 12,000,000 TOTAL ASSETS <u>IDR. 20,682,500.</u>  LIABILITY & EQUITY IDR. -  Equity Capital IDR. 18,646,500. Profit IDR. 2,036,000 AMOUNT OF LIABILITY & EQUITY <u>IDR. 20,682,500.</u>

*Primary Data Analysis Sources (2020)*

*Notes to financial statements:*

1. General

The Muncul Kicau Micro Business owned by Imam Syafii was established in October 2012 and has been registered as one of the UMKM or MSMEs (Micro, Small and Medium Enterprises) in Sukodono Subdistrict, Sidoarjo Regency.

2. Summary of Important Accounting Policies

a. Statement of Compliance

The financial statements are prepared using Micro, Small and Medium Entity Financial Accounting Standards.

b. Basic Compilation

The basis for preparing the financial statements is the historical costs and the presentation currency used for the preparation of the financial statements is the Rupiah.

c. Fixed assets

Fixed assets are depreciated using straight lines with estimated economic lives as below:

Vehicle = 10 years

d. Revenue and Expense Recognition

Revenues and expenses will be recognized immediately when cash inflows and outflows occur.

3. Explanation of accounts in profit and loss

a. Income

1. Bird sales of IDR 9,160,000 came from the sale of black starlings, turtledove, white puter, cracker, love bird, green lizard, puter pedestal, sirpu, kemedede, perci, pernaks, golden finches, and trinitil.

2. Cage sales of IDR 4,420,000 come from the sale of small, medium and large bird cages.

3. Feed sales of IDR. 120,000 come from the sale of bird feed with the trademark twister, ronggolawe, champion, leopard, gold coin, chilDRy, suramadu; corn; hongkong uler; and Kroto.

4. Accessories sales of IDR 10,500 came from the sale of feed, love bird kricitan, ceiling hooks, and banana hooks.

b. Load

1. The cost of purchasing birds is IDR 4,610,000, - the costs consist of the purchase of black starlings, turtledove, white puter, cracker, love bird, green lizard, puter pedestal, sirpu, kemedede, splash, pernjak, gold finches, and small.

2. The cost of purchasing a cage of IDR 4,270,000, - is the cost of consisting of purchasing small, medium and large bird cages.

3. Feed Purchase Fee in the amount of IDR. 90,000, - is a fee consisting of the purchase of bird feed with the trademark twister, ronggolawe, champion, leopard, gold coin, chirpy, suramadu; corn; hongkong uler; and Kroto.

4. Accessories Purchase Cost of IDR. 9,500, - is the cost consisting of the purchase of feedlot, love bird krikitan, ceiling hooks, and banana hooks.

5. Store Rental Fee of IDR. 1,000,000 constitutes rental payment for land use and shop building for business purposes. The cost for leasing a shop for 5 years is IDR 60,000,000 (per month IDR 1,000,000).

6. The store electricity fee of IDR 150,000 is the cost of purchasing electricity tokens.

7. Gasoline costs as much as IDR 45,000, - is the transportation cost that must be spent for the purchase of merchandise to the supplier.

8. Salary costs of IDR 1,500,000, - are the costs for labor payments.

4. Explanation of accounts in the balance sheet

a. Asset

1. Birds IDR. 1,787,000 constitute merchandise inventory (biological assets). There are 35 turtledove birds for IDR. 5,000 / tails; 1 small bird for IDR. 5,000 / head; 3 puter birds costing IDR. 20,000 / tail; 3 per pedestal birds for IDR. 15,000 / tail; 4 black starlings for IDR. 55,000 / tail; 3 white puter birds costing IDR. 30,000 / tail; 4 puter pedestal birds for IDR. 15,000 / fish; 25 cranes for IDR. 4,000 / tail; 7 ninja for IDR 100,000 / tail; 4 golden finches for IDR. 20,000 / tail; 5 love birds for IDR. 20,000 / fish; 4 ontong bribes for IDR. 8,000 / fish; 2 sparks for IDR. 25,000 / head; 3 pernjak birds for IDR. 4,000 / fish; 4 sirpu birds for IDR. 7,000 / tail, and 2 Kemade birds for IDR. 15,000 / tail.

2. A cage of IDR. 1,170,000 constitutes a stock of merchandise consisting of: 6 small cages of IDR. 20,000 / piece; 45 medium-sized cages worth IDR 100,000 / piece; and 5 large size cages for IDR. 120,000 / piece.

3. Feed of IDR. 678,500, - is a merchandise inventory consisting of: 1 piece of twister bird feed for IDR. 8,500 / piece; 3 pieces of ronggolawe bird feed for IDR 4,000 / fruit; 5 pieces of champion brand bird feed for IDR. 5,000 / piece; 3 leopard brand bird feeds for IDR 5,000 / piece; 1 piece of gold coin bird feed for IDR. 13,500 / piece; 3 pieces of chirpy bird feed for IDR. 5,000 / piece; 4 pieces of pur 21 bird feed for IDR. 5,000 / piece; 3 pieces of krotosari skm brand bird feed for IDR. 2,500 / piece; 4 pieces of corn for IDR 10,000 / fruit; 3 pieces of Takari brand fish feed for IDR. 2,500 / fruit; 7 pieces of broilers for IDR. 8,500 / fruit; 1 piece of catfish feed for IDR 2,500 / piece; 7 pieces of corn rice valued at IDR 7,500 / fruit; and 30 pieces of suramadu brand bird feed for IDR. 9,500 / piece.

4. Accessories in the amount of IDR. 1,219,000 constitute merchandise inventory consisting of: 49 pieces of crown-hooks for IDR. 18,000 / piece; 30 pieces of feed for IDR 1,000 / piece; 33 love bird kricitan for IDR. 1,000

/ piece; 30 pieces of ceiling fixture for IDR 1,500 / piece; 25 banana cantolan for IDR. 1,500 / piece; 6 pieces of water spray for IDR 4,500 / piece; and 6 bird drink dispenser for IDR. 18,500 / piece.

5. The second type of Vario Motor Vehicle is IDR 12,000,000, - as much as 1 piece which used as the transportation of the owner to purchase merchandise. The vehicle was purchased in February 2020 (not yet depreciated).

b. Capital

The capital of IDR. 18,646,500 came from their own capital.

The competency of the business owner and the wife of the owner in bookkeeping (accounting) is still relatively low because they do not have an accountant background. Based on the results of interviews found that the understanding of the owner and wife regarding bookkeeping (accounting) are limited on recording debit / credit transactions in money in and money out of merchandise. The business owner and his wife do not understand the process of preparing financial statements in the form of a Balance Sheet, Income Statement and Notes to Financial Statements in accordance with the applicable SAK EMKM. So far there has been no socialization related to the preparation of financial statements based on SAK EMKM from the local government or IAI to micro businesses. Business owners and their wives have never attended a financial statement preparation workshop. This is supported by the results of research conducted by Sholikin and Setiawan (2018) which stated that UMKM in Blora Kabupaten were also not ready to implement SAK EMKM in their financial reporting because of the low understanding of MSME actors regarding SAK EMKM and there was no socialization, training, and no socialization. assistance from the local government regarding SAK EMKM to UMKM actors in the region;

Based on the results of the interview, the business owner revealed that the bookkeeping process is an activity that wastes time. Business owners, in this case, prioritize service to customers as the main activity that must be considered rather than having to take time to simply record financial transactions. This has led to the fact that since 2018 this business had not carried out the daily cash-in and cash-out process, but records it through memory. Kemboi et al (2014) stated that service to customers is an important thing to be implemented in UMKM scale businesses because it can affect customer satisfaction. Although service is important, according to Nwobu, et al (2015) financial records must also be carried out because by recording finances, UMKM actors can find out periodic performance so that ultimately the goals and objectives of the organization can be more easily achieved.

Financial statements are reports that contain financial information from micro, small and medium entities (IAI, 2016). Financial statements according to SAK EMKM must consist of: (a) income statement for the period; (b) statement of financial position at the end of the period; and (c) notes to the financial statements, which contain additions and details of certain relevant accounts. Based on the results of observations and interviews, the financial statements of micro-enterprises appear in chaos as of February 29, 2020 if they are presented according to the financial statement format in accordance with SAK EMKM.

Based on research results from the preparation of financial statements in accordance with SAK EMKM on Muncul Kicau Micro Business, the implications can be described as follows: (1) Financial statements according to SAK EMKM can provide understanding to owners about the accounting system and can facilitate owners in fulfilling administrative requirements for loan applications (credit) to banks and other financial institutions; (2) The owner can find out how the real condition of the business being undertaken is whether it has progressed or not from time to time; (3) Owners can find out the source and use of business funds so that they can periodically evaluate financial performance; and (4) Owners can anticipate the possibility of losses early so they can avoid business bankruptcy.

## **CONCLUSION AND SUGGESTIONS**

From the results of the research, several conclusions can be drawn that can address the issues raised in this study, including: (1) The process of preparing the financial statements of Micro-Emerging Business Chirping is carried out by the owner in a simple way,

that is only making a cash register in and out daily. This process is carried out by the owner until 2018. For 2019 onwards the owner will no longer make financial statements and rely more on recording through the owner's memory; (2) There are several obstacles experienced by owners in preparing financial reports in accordance with SAK EMKM including: (a) this micro business does not have special employees in the financial recording section, (b) HR competencies are still low, and (c) bookkeeping (accounting) is a process that takes the owner's time; (3) Preparation of financial statements in accordance with SAK EMKM in Chirping Micro Business consists of: (a) Income statement which is an evaluation of business performance that makes entrepreneurs know how their performance is within a period of 1 year; (b) Statements of financial position that reflect the actual state of the business so that the owner can make the right financial decisions; (c) The notes to the financial statements reveal further clarification of the accounts contained in the income statement and statement of financial position.

The suggestions that can be given regarding the preparation of financial statements based on SAK EMKM on Muncul Kicau Micro Business are as follows: (1) From these constraints in preparing financial statements in accordance with SAK EMKM, then there needs to be a solution to overcome these obstacles, namely: (a) the Regional Government of Sidoarjo in order to be able to provide guidance or outreach regarding the process of preparing financial statements in general and the technical preparation of correct financial statements in accordance with applicable standards; (b) academics who collaborate with IAI in East Java in order to provide training or training in preparing financial reports in accordance with the SAK EMKM format; (c) Mr. Imam Syafii and Ms. Ratna should study the preparation of financial statements in accordance with SAK EMKM so that they can practice in the business that is being undertaken; (2) For further researchers who intend to examine the same topic are expected to conduct research on other subjects.

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