



## Implementation of Financial Accounting Standards for Small and Medium Entities in Berastagi SMES, Karo District

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**ABSTRACT:** The awareness of business actors in compiling financial reports for MSME business actors is still very low so that it has a negative impact on the sustainability of their businesses. Preparation of Financial Accounting Standards for Micro, Small and Medium Entities (EMKM) which have been compiled to become a reference for MSMEs to prepare financial reports in a systematic and regular manner. This study aims to determine the application of accounting in Small, Micro and Medium Enterprises (MSMEs) and explain the barriers to business actors in applying accounting. This research is a descriptive qualitative research with data collection conducted through questionnaires and interviews. Object this research is MSME actors located in Berastagi District, Karo Regency. The data collected were 41 respondents using the purposive sampling technique. The results of the study show that most MSME actors do not know what to account for. The obstacle faced by business actors is the lack of socialization or training regarding accounting and SAK EMKM. The next obstacle is the lack of time to prepare financial reports, the assumption that financial reports are difficult to understand, and the low awareness of business actors to improve the presentation of financial reports by SAK EMKM.

**Keywords:** Application of Accounting, Micro, Small and Medium Enterprises (MSMEs), EMKM Accounting Standards (SAK)



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### INTRODUCTION

The existence of MSMEs as one of the supports for the Indonesian economy can be taken into account in improving economic balance. Evidenced by the survival of MSMEs against the monetary crisis that hit Indonesia in 1998. At that time imported raw materials increased drastically which caused large businesses to lay off workers and go bankrupt. The banking sector also slumped in terms of capital for the industrial sector due to the fluctuating exchange rate of the rupiah against the dollar. In contrast to the small and medium enterprises, most of which survived and did not bear a large burden due to the crisis. MSMEs have the main key as drivers of sustainable economic growth and job creation (Diabate et al., 2019). (Molina -García et al., 2022) states that interest in

entrepreneurship is currently growing rapidly and unevenly. This further confirms that the importance of MSME performance is to strengthen the economy and welfare of the Indonesian people ([Aritonang et al., 2022](#)). Innovation, creativity and trust in the team greatly affect the performance of MSMEs ([Afriyie et al., 2019](#); [Avermaete et al., 2003](#); [Chen et al., 2020](#); [Indarti, 2012](#)).

According to Rohmad Hadiwijoyo quoted from Kompas Economy (2021) there are three factors that make MSMEs able to survive amidst economic crisis conditions. First, in general, MSMEs produce consumer goods and services that are close to the needs of the community. Second, MSME actors generally utilize local resources such as human resources, capital, raw materials and equipment. The third factor, in general, MSME businesses are not supported from bank loans but from their own funds. Capital is the main problem for a business to develop ([Sisharini et al., 2019](#)). To maintain and develop a business in a better direction, a financial strategy is needed which is an important factor ([Susanti et al., 2021](#)). MSMEs that specifically receive guidance from certain agencies are proven to be able to prepare financial position reports, profit and loss reports, and notes on financial statements ([Ardila et al., 2019](#)).

The increase in the number of MSMEs in Karo Regency from various sectors is also supported because it is one of the highly developed tourist areas because it is surrounded by the beauty of Lake Toba. One of them is the management of the homestay business should also make adequate business records (accounting) even if in a simple form, so that the business development and finances of the homestay business can be orderly and accountable so that information about income and costs earned during the current year can be properly recorded, in order to compile business financial reports ([Ngatemin, 2019](#)). Management training related to financial records is one way to improve the quality and quantity of products produced, improve management, and expand marketing networks ([Prayitno et al., n.d.](#)).

In order to help MSMEs compile their financial reporting needs, the Indonesian Accounting Association (IAI) in 2018 issued Micro, Small and Medium Entity Financial Accounting Standards (SAK EMKM) to increase the transparency and accountability of entity financial reporting while at the same time encouraging the growth of developing MSMEs in Indonesia. Thus, MSMEs can obtain information that is important for the continuity of their business, including information on changes in business owner's capital, information on cash receipts and disbursements, and information on the financial position of the business ([Anisere-Hameed, 2021](#)). In managing finances in SMEs, good accounting skills are needed by small and medium business entrepreneurs ([Diana, n.d.](#)). Preparation of financial reports based on financial accounting standards can improve the quality of financial reports, which will boost the credibility of the relevant financial reports ([Mukoffi & Sulistiyowati, 2019](#)).

However, the thing that has become an obstacle for EMKM is that not many EMKM are able to carry out records, bookkeeping and even financial reporting. Even though the organization of records, bookkeeping and financial reporting is an important thing that needs to be done by every entity, so that the entity can evaluate the entity's performance every year. In addition, entities can also add to their business working capital from bank loans by attaching the entity's financial

statements ([Nina et al., 2018](#)). There are only a small number of MSMEs that have managed to achieve extraordinary performance and sustainable growth ([Sidik, 2012](#)). Not having human resources who understand the preparation of financial reports in accordance with financial accounting standards is an obstacle experienced by many business actors ([Cenamor et al., n.d.](#); [Sholikin & Setiawan, 2018](#)). To support the implementation of SAK EMKM, training and assistance is needed for human resources so that they can prepare MSME financial reports that must meet SAK EMKM standards so that it makes it easier to apply for business capital ([Wahyuni & Sutomo, 2021](#)). Perceptions of the usefulness of SAK EMKM vary depending on the needs of business actors which are strongly influenced by the level of education ([Purwanti et al., n.d.](#)).

The low interest of MSME actors in compiling financial reports and because of the small scope of the company so that MSME actors consider it unnecessary to prepare financial reports are another factor that causes MSME actors not to prepare financial reports in accordance with SAK EMKM. Entrepreneurs with an accounting background are believed to have a better perception of ([Barker & Noonan, 1996](#); [Gumelar et al., 2022](#); [Rizky, 2019](#)). SAK EMKM compared to entrepreneurs with non-accounting educational background. ([Arda, 2021](#)). The level of information about SAK EMKM, educational background and educational level of MSME entrepreneurs greatly influences the understanding of business owners on SAK EMKM ([Adhikara, 2018](#)). On the other hand, MSMEs are not ready to implement SAK EMKM and do not understand the importance of issuing SAK EMKM ([Zulfikar et al., 2022](#)). Most MSME business actors only record cash inflows, record sales, record expenses, record salaries, record debts, record purchases, record inventories, and record rents ([Puspita et al., n.d.](#)).

The objective of financial reports is to provide information on the financial position and financial performance of an entity that is useful to a wide range of users in making economic decisions by anyone who is not in a position to request specific financial reports to meet that information need. Information on the entity's financial position consists of information about the entity's assets, liabilities and equity at a particular date, and is presented in the statement of financial position ([Ikatan Akuntan Indonesia, 2018](#)). MSME business actors who consistently implement SAK EMKM contribute to state revenues by complying with their tax obligations ([Kristiana et al., n.d.](#)).

From the explanation above, the problem of this research is how to apply accounting carried out by MSMEs in Berastagi District and what are the obstacles that hinder the application of accounting to MSMEs in Berastagi District.

The purpose of this study was to determine the application of accounting for MSMEs in Berastagi District in accordance with good and correct accounting principles and to find out the obstacles that hinder MSMEs in Berastagi District and to provide solutions for MSME actors in applying accounting according to good and correct accounting principles.

## **METHOD**

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This study used descriptive qualitative method. research subjects are people who are asked to provide information about a fact. The research subjects used by researchers were Micro, Small and Medium Enterprises (MSMEs) in Berastagi District. The research was conducted using structured direct interviews using an interview guide according to the questions contained in the questionnaire. Informants who provide answers to questions are owners or managers of MSMEs in Berastagi District.

## RESULT AND DISCUSSION

The results of the research on 41 respondents are in accordance with the respondents' personal data on the questionnaire that MSME actors have businesses engaged in various types of businesses such as food and beverages, handicrafts, and textiles. The ages of MSME actors range from <20 years old to >41 years old and their final education level ranges from elementary school graduates to bachelor degrees.

**Table 1. Distribution of respondents' answers**

No	Statements	Criteria	Frequency	Percentage(%)
1	Knowing Accounting and Accounting Records	Yes	7	17.1
		No	34	82.9
2	Creating and Collecting Proof of Transactions	Yes	8	19.5
		No	33	80.5
3	Recording Sales and Purchase Transactions	Yes	7	17.1
		No	34	82.9
4	Making Accounting Records in Journal Form	Yes	8	19.5
		No	33	80.5
5	Making Ledgers	Yes	6	14.6
		No	35	85.4
6	Separating Business Interests from Personal Interests	Yes	8	19.5
		No	33	80.5
7	Components of Financial Statements:		8	19.5
	1. Statement of financial position	Yes		
		No	33	80.5
	2. Income statement	Yes	9	21.9
		No	32	78.1
	3. CALK	Yes	8	19.5
		No	33	80.5
8	Preparation of Financial Statements Using Accounting Software	Yes	5	12.2
		No	36	87.8
9	Purpose of Making Financial Reports:			
	o Internal needs		10	
	o External Needs		5	24.4
	o Internal and external requirements		26	12.2
				63.4
10	Knowledge of SAK EMKM	Yes	7	17.1

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	No	34	82.9
<b>11</b> Media for Obtaining Information about SAK EMKM:			
o Internet		11	26.8
o Newsletter/Magazine		0	0
o Electronic Media		3	7.3
o No information from anywhere		27	65.9
<b>12</b> Obtaining socialization or training regarding SAK EMKM	Yes	3	7.3
	No	38	92.7
<b>13</b> Understanding the Contents of SAK EMKM	Yes	6	14.6
	No	35	85.4
<b>14</b> Application of Accounting in accordance with SAK EMKM	Yes	2	4.9
	No	39	95.1
<b>15</b> Experiencing Difficulties in Preparing Financial Statements	Yes	35	85.4
	No	6	14.6

Source: primary data processed, 2023

The following is a discussion of the results of processing the questionnaire data which have been answered by research respondents through the following sub-chapters:

**Knowledge of MSME actors regarding accounting and accounting records**

The results of research on accounting knowledge by respondents showed that the majority of MSME actors, namely 82.9% of respondents, did not know the basis of accounting and its recording. Through interviews with one of the respondents stated that:

"I don't understand accounting because I rarely take accounting training. So just record expenses and income sober."

Statements from these respondents indicate that the lack of socialization and training in accounting is the main reason why business actors do not have knowledge of accounting and its records.

However, there are still a number of MSME actors, a total of 17.1% of respondents, who have basic knowledge of accounting and recording. The results of interviews with one of the respondents who understand accounting suggest that:

"...knowing accounting can help me in keeping daily records of sales and purchases of goods every day..."

This statement shows that basic knowledge of accounting and regular accounting records can assist business actors in managing their finances. They are assisted by employees who understand financial management. The employee's task is to assist business actors in carrying out accounting records for each transaction on a regular basis.

Knowledge of accounting and accounting records is needed by business actors because it can become the basis for understanding in recording all transactions. This can help business actors in making bookkeeping in a simple way. Lack of understanding of accounting and recording by MSME actors can cause problems. One of them is that it is difficult to know the current financial condition of the business being managed because there is no definite record of the income and

expenditure of funds for transactions related to the running of the business. When a business actor does not regularly record accounting, it will result in a great deal of financial information being disclosed incorrectly and improperly.

### **Bookkeeping activities carried out by SMEs**

According to the results of interviews, 80.5% of business actors acknowledged that business actors do not make or collect proof of transactions in their business. Business actors who do not make and collect proof of transactions have various reasons such as the lack of time they have to make evidence for all transactions that occur. Another reason is that business actors are not careful in storing transaction evidence so that many are lost, and business money is used as personal money to cover daily living expenses.

It can be said that the process of bookkeeping activities carried out by MSME actors does not apply much, starting from the activities of making and collecting all evidence of buying and selling transactions, up to the stage of making journals and ledgers. Only 19.5% who make and collect proof of transactions reveal that it can help them monitor every transaction that occurs every day.

Making and collecting evidence of transactions that occur can assist business actors in making books. By collecting evidence for every transaction that occurs, business actors can monitor every transaction in their business activities. This can minimize employee and business manager fraud in managing business funds.

Referring to the activity of recording buying and selling transactions, it can be concluded that the majority of actors, namely 82.9% of respondents, did not make notes on their business by recording all buying and selling transactions. The results of an interview with one of the business actors argued that there was no recording of buying and selling transactions because the person selling was changing

MSMEs who do not keep journals or ledgers think that making journals and ledgers is very complicated. Lack of time and accounting knowledge from business actors to do this is also a strong reason. The collection and recording of evidence for all transactions on a regular basis is deemed sufficient to represent financial information on its business. This shows that there are still business actors who do not carry out the accounting cycle properly and correctly.

In the opinion of MSME actors who have regularly made journals and ledgers, through brief interviews stated that making journals and ledgers facilitates the process of preparing financial reports. Even though business actors admit that they still make it not in accordance with existing accounting standards. MSME actors who do not keep journals or ledgers think that making journals and ledgers is very complicated. Lack of time and accounting knowledge from business actors to do this is also a strong reason. The collection and recording of evidence for all transactions on a regular basis is deemed sufficient to represent financial information on its business. This shows that there are still business actors who do not carry out the accounting cycle properly and correctly.

Business actors who do not separate their funds assume that the money obtained from business units is part of their funds. Business actors assume that there is no difference between personal money and money for business results. This can lead to errors in the classification of funds which are the result of business with personal money, so that it will be difficult to know the amount of profit or loss experienced by the business.

Some of the respondents who carried out the separation stated that in order to avoid financial recording errors, especially for managed businesses, business actors can clearly know the profits, income and expenses of the business.

### **Ownership of the Financial Statements presented by MSME Actors**

Financial reports are the basis for decision-making and contain important financial information. Based on table 6 it can be said that business actors have not presented their financial reports in full as required in SAK EMKM. According to the results of the interviews, the profit and loss report can make it easier for business actors to find out the income and expenses in their business regularly so that they can evaluate the merits of the business. Business actors who have not fully implemented accounting have reasons, namely the lack of accounting knowledge by business actors and employees. They only make journals and ledgers in accounting records because they think these two things are enough to represent the financial condition of their business.

For business actors who have made complete financial reports from the results of interviews, they say that it is very helpful to know the profits received each month. This shows that the majority of MSME actors present income statements as a component of the main business financial statements because they only want to know the profit or turnover for each period of the business they manage. According to the results of processing the questionnaire data, the presentation of financial position reports and CALK is still small among business actors.

Accounting information must be produced precisely, accurately, and relevantly as required by SAK EMKM so that MSME actors must be able to present financial reports with the latest financial information. One of them is processing data using the software. Based on table 7 regarding the use of accounting software, the majority of business actors still make accounting records and present financial reports manually. The results of interviews from MSME actors who do not use software or present financial reports manually assume that the costs incurred to buy accounting software are very expensive and are not balanced with the benefits provided directly so that manual recording is sufficient and fulfills the purpose of making financial reports for their business. For business actors who have carried out computerized accounting activities following the results of interviews, said that in presenting financial reports, they think that the use of accounting software is very helpful in preparing financial reports easily and quickly.

Computerized recording can reduce the risk of calculation errors and can produce timely and relevant information. The use of software in business units is assisted through Microsoft Excel applications and accounting programs that have been specially made for these business units. This shows that MSMEs that have used accounting software can be said to have fulfilled the information quality characteristics of SAK EMKM.

From the discussion of the use of accounting software in MSMEs, it shows that there is still low technological development used by business actors as a support for financial recording activities and chooses to keep financial records manually. The use of accounting software should have been implemented by MSMEs because it can make it easier for business actors to see the financial condition of the business at any time. Through data that is always updated every time a transaction occurs, business managers can also be accountable for resources that have been used appropriately and can speed up the decision-making process for business continuity.

The willingness and awareness of MSME actors in making financial reports with various objectives can be seen in table 9 explaining that one business actor stated that the business actor only wanted to see how far the managed business had developed and financial reports to be used as a decision-

making tool. Respondents have chosen the purpose of making financial reports for internal and external purposes based on the results of interviews. It can be concluded that financial reports are used as a form of responsibility at the head office located outside the City of Berastagi and as an evaluation in the business development stage. According to the interview results, one of the respondents gave reasons for external interests, namely to make it easier for investors and banks to read financial reports so that it is easy for business actors to get additional capital for business development and for tax reporting every year.

### **Knowledge of MSME actors about SAK EMKM**

IAI issues SAK EMKM to facilitate MSME players in compiling financial reports to gain access to funding from various financial institutions. The results of processing the questionnaire data in table 10 are that the majority of MSME actors, namely 82.9%, do not know SAK EMKM. Following the results of the interviews, there was a lack of socialization and accounting seminars that discussed these standards, so business actors only applied simple accounting. 17.1% of respondents were aware of the SAK EMKM as an accounting standard for MSMEs. The media used by a handful of MSME actors in obtaining information about SAK EMKM according to table 11 is from the internet and electronic media. The results of interviews with MSME actors who already know said that business actors try to always keep abreast of developments in accounting standards.

Financial management socialization or training can assist business actors in realizing the correct presentation of financial reports. However, in table 12 of 92.7% of respondents, it can be seen that there is still low socialization or training regarding SAK EMKM. Lack of socialization and training regarding SAK EMKM makes understanding of these standards among business actors very low, this is shown in table 12. In this table, the majority of respondents 85.4 % still do not understand the contents of SAK EMKM. According to the results of interviews with MSME actors, they said that business actors were only given basic training in carrying out accounting books such as preparing and archiving evidence of transactions, recording finances following the accounting cycle, and basic knowledge regarding the preparation of financial reports. Submission of socialization is only in the form of theory alone and lacks in terms of practice. This makes business actors still confused in realizing the presentation of financial reports for managed businesses. The low understanding of the contents of SAK EMKM also has an impact on the application of accounting in businesses according to the standards. Table 13 shows that 95.1% of respondents still haven't implemented it. Taken from the results of an interview with one of the business actors, in preparing their financial reports they are still limited to simple accounting knowledge without following the applicable standards. MSME business actors are also still guided by SAK ETAP as the accounting standard for making financial reports.

Judging from the results of the questionnaire regarding the understanding of SAK EMKM among MSME actors it is still low. They hope that the training or outreach organized by the relevant government agencies, academics, and fostered institutions can provide theory and direct practice regarding accounting records and presentation of financial reports, not just basic accounting information but also following applicable accounting standards, namely SAK EMKM.

### **Difficulties or Obstacles experienced by MSME Actors in the Preparation of Financial Statements**

Referring to table 15, 73.2% of respondents still experience difficulties in preparing financial reports. In addition to the lack of knowledge from business actors as well as training or outreach. According to the results of the interview, it can be seen that there is no further desire in managing finances based on Micro, Small, and Medium Entity Accounting Standards (SAK EMKM).



Business actors believe that financial reports are not important in their business and there is no desire to know and improve the accounting recording system following SAK EMKM because it is considered difficult and a waste of time, so it can be seen that the level of awareness to improve financial reports according to standards is still low.

Presentation of financial reports following SAK EMKM, business actors can evaluate performance in each period for business development. Another benefit in recording accounting correctly and presenting financial reports following SAK EMKM can help business actors to provide confidence to external parties in the process of investing and increasing business capital so that they can be monitored and accounted for all activities related to business management.

From the results of this study, it can be seen that the application of accounting carried out by MSMEs in the Berastagi District is still simple and low. The majority of MSME actors still do not know and understand accounting presentations following SAK EMKM. Less than optimal socialization and accounting training and lack of awareness by business actors on the importance of applying to account following SAK EMKM are the reasons.

Business actors hope that MSME coaching institutions and the government can embrace their business to get intensive socialization and accounting training following SAK EMKM. This can make MSME actors apply financial reports following standards so that they can help them to increase business capital from various financial institutions for business development and the products produced are of a higher quality.

### **Application of MSME Accounting**

The application of accounting to MSMEs in the Berastagi District is very diverse because the accounting knowledge possessed by business actors is not evenly distributed and the willingness of business actors to present financial reports by standards. Some businesses that already have many branches apply the accounting cycle starting from transactions - making and collecting transaction evidence, making journals and ledgers, and making financial reports namely statements of financial position, income statements, and CALK (use of software). However, most business actors only record cash receipts and disbursements. Implementation of SAK is very difficult because it requires additional costs such as training costs, salaries, and time. Micro and small-scale businesses tend not to keep books by financial accounting standards because the profits from these businesses are directly used to cover their daily needs, in other words, there is no separation of personal money from business income.

## **CONCLUSION**

This study aims to determine the application of accounting carried out by SMEs in Berastagi and to determine the obstacles faced by SMEs in applying to accounts. Small, Micro, and Medium Enterprises (MSMEs) in Berastagi District, most MSME actors do not know and apply to account, even though they do not have financial records or bookkeeping.

The form of financial reports presented by MSMEs is still not by SAK EMKM because the financial reports presented are only dominated by profit and loss reports and the lack of knowledge of business actors regarding Micro, Small, and Medium Entity Financial Accounting Standards (SAK EMKM). According to SAK EMKM, there are 3 (three) minimum financial reports that must be presented by MSMEs including a statement of financial position, profit, and loss statement, and notes to financial statements (CALK). The use of accounting software for MSMEs is relatively low, business actors still use manual methods to manage their finances and present

financial reports for the businesses they manage. This is not to the requirements of SAK EMKM in presenting financial reports that must be produced precisely, accurately, and relevantly.

The obstacles experienced by MSME players in Berastagi City in applying accounting and financial reports by SAK EMKM are very diverse. Low awareness or willingness of business owners to improve the presentation of financial reports following SAK EMKM. This can make it difficult for business actors to obtain financial assistance from financial institutions because the financial reports prepared are not following applicable standards. Business actors think that this is a waste of time in daily activities and it is difficult to understand the contents of these standards. The next obstacle is that business actors do not receive socialization and seminars regarding SAK EMKM. They only received basic training in accounting and lack of practice. This obstacle causes business actors to only carry out simple bookkeeping and accounting presentations and is confused about presenting financial reports correctly.

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