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DEVELOPMENT AND PRESENTATION OF FINANCIAL STATEMENT IN  
SMALL AND MEDIUM ENTERPRISES (SMES) BASED ON FINANCIAL  
ACCOUNTING STANDARDS FOR ENTITIES WITHOUT PUBLIC  
ACCOUNTABILITY : A QUALITATIVE STUDY

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**Fima Rahmanela Amanda Putri, Mohamad Suyunus. Development And Presentation Of Financial Statement In Small And Medium Enterprises (Smes) Based On Financial Accounting Standards For Entities Without Public Accountability : A Qualitative Study-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(3), 2100-2107. ISSN 1567-214x**

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**ABSTRACT**

**Background:** One challenges in micro, small and medium enterprises is preparation and presentation of financial statements in accordance to international standards adopted in Indonesia. However, recording system is not applied with certain factors.

**Aim:** To analyze preparation and presentation of financial statements of micro, small and medium enterprises and factors that influence implementation based on Financial Accounting Standards for Entities without Public Accountability (SAK-ETAP).

**Method:** This qualitative study was carried out in a trading unit engaged in photocopying and stationery services business in East Java, Indonesia. Company's financial statements throughout 2016 were reviewed with literary studies and field research. Analysis technique follows Miles and Huberman concepts.

**Result:** Company had implemented a system of recording, journaling and reporting but was not complete. There was a nominal difference between financial statements of company with financial statements that are in accordance to standards. Depreciation expense on assets and equipment had not been assessed even though depreciation expense had a large nominal value. It was caused by ignorance business owners regarding preparation of financial statements according to recommended rules.

**Conclusion:** Preparation and presentation of financial statements had not been in accordance with Financial Accounting Standards for Entities without Public Accountability (SAK-ETAP) and reporting training is needed according to standards.

## INTRODUCTION

Small and medium enterprises have a major role in generating jobs, contributing to Gross Domestic Product (GDP), and being a safety valve in national economic recovery.<sup>1</sup> In management process of small and medium enterprises, an understanding of the business practices of connecting financial statements can be useful.<sup>2</sup> Financial reports consist of statistics about possible risks and association returns of many decisions and have an important role in company successful.<sup>3</sup>

Its activity process, a type of small and medium business has obstacles in managing preparation of financial reports.<sup>4</sup> Challenge facing Small and Medium Enterprises (SMEs) in adopting effective financial accounting reporting is inadequate accounting and accounting records, labor, accounting systems and non-carrying out their transactions through the banking system.<sup>5</sup> Reporting in Indonesia uses Financial Accounting Standards for Entities without Public Accountability (*Standar Akuntansi Keuangan untuk berbasis Entitas Tanpa Akuntabilitas Publik/SAK ETAP*) which have been established by the Financial Accounting Standards Board in 2009. This standard adopts International Financial Reporting Standards (IFRS) too complex if applied by small business entities such as MSMEs in Indonesia. The goal is implementation of entities without public accountability. An entity without public accountability is a non-significant entity and publishes general-purpose financial statements (general purpose financial statement) for external users.<sup>6</sup>

However, implementation of standard Financial Accounting Standards for Entities without Public Accountability is still very low.<sup>7</sup> In addition, weaknesses of small and medium enterprises are inseparable from the aspects of capital and finance.<sup>8</sup> This happened to a small and medium-sized business engaged in photocopying, printing and selling office stationery services in East Java, Indonesia. Preparation and presentation of financial statements of micro, small and medium- enterprises that meet standards will be a benchmark for other businesses. Good financial management will help develop the business. This study aims to analyze the preparation and presentation of financial statements of micro, small and medium enterprises based on financial accounting standards of entities without public accountability.

## METHOD

This research were a qualitative research in a trading business in photocopy services, office stationery sales, and print services in East Java Province, Indonesia. Author observed and interviewed owners, and got financial statement data. Data used includes recording transactions such as transaction documents, notes, previous financial statements and others. Data was got by literary study and field research, through interviews, observation and documentation. Data sources used in this study was from primary and secondary data. Primary data through interviews, daily cash reports, purchase invoices, bank accounts. While secondary data, as additional data that has

been processed and obtained by studying literature and reading related to issues discussed and from support sources. Analysis techniques follow the concepts given by Miles and Huberman. Components in data analysis of data reduction, data presentation, verification or inference of data. This study used analysis of data reduction through the selection process, focusing on simplification, printing, and transformation of "rough" data that arises from written records in the field.

### RESULT

This micro small and medium business has been established since January 2006 and already has 3 store branches operating. Management is carried out by the owner himself and has 7 (seven) employees serving as photocopy operators. This business is engaged in photocopy services, typing and print services and office stationery sales. Turnover obtained on average every month reaches Rp. 70,000,000. In addition there are records of expense recognition transactions covering salary, electricity and others. Available documents at the company such as daily counter records, cash books or ledgers, income statements, bank account books and sales and purchase notes.

Financial reporting on this trading unit has not met the criteria of the Financial Accounting Standards for Entities without Public Accountability because it does not calculate depreciation and does not recognize depreciation expenses and accumulated depreciation of assets and equipment owned. This is because of lack of knowledge and ability of owner in preparing financial statements in accordance with the rules. Recording, journaling and reporting stages. In this trading unit, recording system is up to reporting with an incomplete scheme. Reporting stages should contain balance sheet, income statement, cash flow statement and notes to the financial statements for period ending 31 December 2016. This report is based on information and evidence of records held for period ending 31 December 2016 which is then adjusted to the rules for preparing reports finance according to the Financial Accounting Standards for Entities without Public Accountability. Table 1 shows the amount of operational requirements during 2016.

**Table 1.** Financial Statements in 2016

Date	Account title		Change	
			Debit	Credit
December 31, 2016	Revenue		Rp. 832,108,400	
		Income/Loss Summary		Rp. 832,108,400
		Income/Loss Summary	Rp. 537,340,788	
		Salary expense		Rp. 109,200,000
		Store equipment		Rp. 1,000,000

		expense		
		Electricity expense		Rp. 27,670,000
		Depreciation of machine		Rp. 28,400,000
		Depreciation of equipment		Rp. 7,050,000
		Income tax expense		Rp. 1,565,150
		Cost of goods sold		Rp. 362,455,638
	Income/Loss Summary		Rp. 294,767,612	
		Assets		Rp.294,767.,612
Total			Rp.1,664,216,800	Rp.1,664,216,800

In **Table 1** shows the final report, expenses have not been fully assessed with a large nominal such as depreciation expenses. Expenses are recognized in the income statement if there is a decrease in future economic benefits related to decrease in assets, or an increase in liabilities that have occurred and can be measured reliably. Expenses are grouped into three, namely cost of goods sold, operating expenses and general expenses. Goods cost sold is recognized at cost attached to merchandise before adding to gross profit margin on sale of said merchandise. Operational expenses consist of expenses that are directly related to company's operations. Operating expenses consist of salary expenses, electricity costs, equipment costs. This general or administrative and general burden is a burden that arises in supporting activities in the operation.

In their daily lives, implementation trading unit reporting does not impose a depreciation on fixed assets. Fixed assets owned are in photocopiers forms with an average age 5 years used. 2 types of photocopiers were bought in 2014. Usually for photocopiers, owners change type of machine in approximately seven to eight years of use. This is because the engine starts to have a less than optimal performance and many spare parts start to break down. From initial value of 2014, there was a Canon IR 5000 worth Rp. 28,500,000 with an annual depreciation expense of Rp. 5,200,000 until end of the year to be worth Rp. 2,500,000. In addition, Canon IR 6000 photocopy machine is classified as a new type machine in world of perphotocopy so results of this machine work are very optimal. Better condition engine, will provide a high income and vice versa if engine is longlife. Results of work can not be optimal anymore and finally store revenue also decreases because of frequent damage or errors. Initial value of 2014 was around Rp. 25,000,000, an annual depreciation expense of Rp. 4,500,000 to end of 2017 Rp. 2,500,000. The longest engine in 2013 was the Canon NP 6570 photocopy machine. Value in early 2013 was recorded at Rp. 24,500,000 annual depreciation expense of Rp. 4,500,000 until final value is around Rp. 2,000,000. Depreciation multiplied

by 2 units each type into accumulated depreciation of around Rp. 94,200,000 with acquisition price of Rp. 156,000,000.

Initial assessment of equipment is based on the acquisition value purchase price equipment plus costs incurred until equipment is ready for use. Equipment value must be measured by calculating cost less accumulated depreciation and accumulated impairment losses. Equipment used is goods that have benefits with a period of more than one year. Residual value is estimated to follow market values that are relevant to everyday real life. Computer equipment, fans, printers, scanners, mica and laminating presses have different useful lives so the residual values are different. Mica and laminating press has a useful life of about 2 years, a 4-year printer and scanner while computer and fan have a useful life of 5 years. Amount of acquisition costs around Rp. 11,850,000. There was a depreciation of the values of electronic equipment.

Cash flow statement is known that in cash flow consists of cash flow from net income, changes in inventory, use of equipment, depreciation expenses fixed assets and a decrease in value of trade debt and banks. Amount of cash in 2016 was Rp. 352,851,600. Notes to financial statements include general, preparation of financial statements according to standards, significant accounting policies summaries applied with basis measurement in preparation of financial statements, financial instruments including cash and cash equivalents accounting policies, inventory of prices of merchandise, equipment, machinery, equipment, debt trade, capital and currency used.

Financial statements prepared by author based on rules present the company's net income of Rp. 292,767,612. Capital change report shows changes occur on company's capital in 2016 comes from the company's net income in one year. Financial position presented in balance sheet as of December 31, 2016 shows the total assets of the company amounting to Rp. 557,990,412 with total liabilities of Rp. 352,851,600 and capital owned by Rp. 436,168,412. Cash flow statement using indirect method shows cash flows from operating activities amounting to 174,765,000 and cash balances in previous period of Rp. 178,448,800. Notes to financial statements that present a general description of company, a statement that preparation of financial statements starting December 31, 2016 uses standards as basis for preparation used and policies in each financial instrument presented in a financial report.

## **DISCUSSION**

As a micro, small and medium company, this company has not implemented a policy for preparation and financial statements presentation in accordance to Financial Accounting Standards for Entities without Public Accountability. This business is led by a family. Owner's ignorance of these standards is main reason given service business is managed independently by family. Even "small" companies are more likely to hire managers who are not family members.<sup>9</sup> Private ownership causes all access to financial management to depend on individual. Implications for regulators are now considering possibility of developing guidelines for smallest business entity.<sup>10</sup> Other research states that only a small proportion of SMEs have used SAK-ETAP as

a guide in preparing financial and accounting reports. This contrasts with important role of SMEs in GDP of almost 58%. For this reason, role of relevant institutions is very much needed in supporting the development of SMEs in Indonesia, especially in financial report standards. Majority of SMEs only record to identify transactions and record revenue amounts. Main problem faced is lack of their knowledge about SAK-ETAP and lack of accounting staff competencies.<sup>11</sup>

In this study it was noted the company has not been able to present a report on expenses and depreciation. In research in Jordan, nature, financial disclosure requirements in small and medium enterprises (SMEs) are indeed different from large companies. There are significant differences between small and medium enterprises and large companies in terms materiality of disclosures required in income statement. Percentage of important items that must be disclosed in SMEs is 40%, and that is 90%, in large companies. For financial position reports and reports on changes in equity more attention is paid to by large companies. Efficiency of the accounting system and small and medium control enterprises is important so that there is transparency and disclosure in their financial data.<sup>12</sup>

Although small businesses have limited international structure and activities so they are unable to supply financial reporting information internationally. Size, legal form and number of owners affect the suitability of the report preparation standards for small businesses.<sup>13</sup> More crucial thing is presentation report must be in accordance with standards even without existence of a professional public accountant.<sup>5</sup>

At the enterprise level, intense competition under global economic framework requires small and medium enterprises to reconsider their competitive position among their competitors, among others, through innovation. Product innovation and process innovation significantly affect company performance. Source of internal or external innovation before actual innovation is carried out.<sup>14</sup> The need for a new approach to design of management development programs for micro entrepreneurs.<sup>15</sup>

Micro small and medium enterprises show there are several factors that influence application of standardized preparation and presentation, namely owner education, understanding of information technology, and time for establishment business. Higher all these factors, easier application will be.<sup>16,17</sup> In developing international standards for small and medium enterprises, one of objectives is to develop, for public interest, a high set of quality accounting standards that are quality, understandable, and can be enforced for medium business sector. International standards do represent a big step forward for some small and medium enterprises and for financial communications in general but because each of these changes requires effort from all parts involved and collaborating with companies with different cultures.<sup>18,19</sup> Frequency of preparing financial statements is directly related to whether financial statements are used to make decisions and related inversely the owner's confidence in the reliability of financial statements. Results should be useful for small and medium business owners and service providers to better

understand which factors influence how often financial reports are prepared and provided business development assistance.<sup>20</sup>

## CONCLUSION

Financial record had been not yet in accordance with standards, it was indicated by a nominal difference between financial statements held with financial statements in accordance with Financial Accounting Standards for Entities without Public Accountability.

## CONFLICT OF INTEREST

The author reports no conflict of interest of this work.

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