

CHAPTER I

INTRODUCTION

1.1. Background

The trade and export balance of Indonesia, which keeps rising past the highest record in its history, demonstrates that Indonesia's economic situation is now improving. Micro, Small, and Medium Enterprises (hereinafter MSMEs) have significantly contributed to Indonesia's economy's improvement. According to a news release issued by the Coordinating Ministry for Financial Affairs on May 5, 2021, in Jakarta, MSMEs are the most significant pillar sustaining economic growth in Indonesia. It is due to the ability of MSMEs to boost employment while lowering poverty and unemployment.

According to data from the Ministry of Cooperatives, Small, and Medium Enterprises (KUKM) on March 2021, there are currently 64.2 million MSMEs in Indonesia, which contribute to a GDP of 61.07%, or worth 8,573.89 trillion IDR. With such a significant contribution, MSMEs have assisted the Indonesian economy in absorbing 97% of the nation's existing labor force and may gather 60.4% of the nation's total investment.

MSMEs are defined by Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises as active and free economic enterprises run by business entities that are not subsidiaries of companies, directly or indirectly and controlled by or a part of small or large enterprises. MSMEs are sometimes called small-scale businesses with profit-making objectives that numerous groups of people can manage. At this time, the MSMEs are snowballing, therefore this industry requires more attention. It is because MSMEs can absorb employees when there is rising competition in getting jobs. According to the research by Wibowo, Putri, and Nasution (2021), MSME activities can increase employment opportunities and offer various economic services to the community. This will

stimulate economic growth, aiding in the process of equalization and raising the income of the Indonesians.

Although MSMEs have made a significant contribution and have snowballed, it does not imply that the MSME industry is free from issues. Limited working capital, the challenge of finding high-quality raw materials at reasonable rates, little skills in using technology, lack of qualified human resources (HR), and other issues are common obstacles in MSMEs. MSMEs must surely be able to expand their manufacturing capacity as their business grows, which will demand more funding. However, MSMEs usually have difficulty keeping up with the global competition and shifting consumer demands due to a lack of capital and poor human resource quality (LPPI & BI, 2015 in Diana, 2019). Thus it could make some MSMEs unable to last long in running their businesses.

MSMEs frequently use Kredit Usaha Rakyat (hereinafter KUR) as their funding source. KUR is a government funding program that utilizes bank funds for investment and working capital purposes. The funding is intended for individual MSME actors or business entities participating in a cooperative forum whose companies are considered competitive and profitable but do not yet have extra collateral. However, in its realization, KUR is still difficult to be accessed by MSMEs actors because of the stringent criteria set by banking institutions — institutions appointed by the government to disburse business loans. Because in accepting the credit application, the bank needs adequate accounting information to explain the business's financial condition.

However, copious MSMEs have only recorded simple journals with simple accounts of income and expenses and rarely follow the applicable Financial Accounting Standards (SAK). This can be why the bank declines the credit applications by MSMEs actors. Most MSME actors do not know how to prepare the proper financial statements, so they often do not separate their personal and business finances (Luchindawati, Nuraina, & Astuti, 2021). At the same time, financial statements are used not only as a requirement for a credit loan but also

play an essential role as a consideration in making decisions for business actors to expand their business (Arilia & Munari, 2022).

One of the reasons MSMEs do not prepare financial statements based on applicable standards is the low level of education and incomplete information of SAK. Research findings by Rosyidah, Ariningsih, & Wijayanti (2022) support the argument above, which shows that MSME actors do not have sufficient opportunities or time or trained human resources, to prepare financial reports in compliance with applicable standards. Additionally, Pratama, Askandar, & Afifudin (2022) research results show that management's limited knowledge of accounting standards is why MSMEs actors do not prepare financial statements based on applicable standards.

The Accounting Standards Board (DSAK), under the auspices of the Indonesian Accounting Association (IAI), developed accounting standards to overcome these issues and provide MSMEs in Indonesia with the necessary tools for accurately recording their financial statements. Furthermore, in 2009, DSAK IAI ratified the Financial Accounting Standards of Entities Without Public Accountability (SAK ETAP), which became effective on January 1, 2011. According to IAI (2009), SAK ETAP was developed for use by organizations that do not have a significant amount of public accountability and publish their financial statements for general purposes for external users. External users include creditors, credit rating agencies, and owners who do not directly manage the business.

However, as it is currently implemented, SAK ETAP is considered excessively complex and difficult to apply to recording financial statements. The MSME actors' limited access to high-quality human resources contributes to the ineffectiveness of this standard's execution. As a result, DSAK IAI created the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK-EMKM), a simplified version of SAK ETAP, to develop accounting standards once more.

DSAK IAI validated SAK EMKM on October 24, 2016, and it became effective on January 1, 2018. This standard is intended to be utilized by organizations that comply with the SAK ETAP's definition of an entity without significant public accountability and the requirements of Law Number 20 of 2008 regarding Micro, Small, and Medium Enterprises. SAK EMKM is the most superficial and easiest-to-understand standard because it covers accounting methods for transactions that MSMEs typically carry out. Because historical expenses are used as the basis for measurement under this standard, MSMEs can easily record their assets and liabilities in the amount of the prices achieved.

Since SAK EMKM was implemented, MSME players are no longer required to prepare financial reports using IFRS and SAK ETAP. SAK EMKM is anticipated to make it simpler for MSME actors to record their financial statements because it is a more accessible standard to implement than SAK ETAP. And ultimately, it will allow them to advance and enhance the quality of MSMEs in Indonesia.

Even though SAK EMKM is simpler and easier to apply than other standards, it is not as simple as it may seem because management and MSME business owners must have a good understanding of accounting to complete the financial reporting process. The successful adoption of SAK EMKM would be a long process that demands preparedness from MSME actors, as this standard is also seen as relatively new by MSME actors (Nuvitasari, Citra, & Martiana, 2019). Therefore, it is necessary to conduct research regarding the comprehension and implementation of SAK EMKM in the MSMEs industry.

The object of this research is Mbok Dower Restaurant. This restaurant was established in 2019 in Pontianak, Kalimantan Barat, which is now located on Jalan M. Sohor, Number 17C. In addition, this business is an individual business with three employees, where the owner also doubles as an employee.

In its first year, Mbok Dower already had four branches. However, due to the Covid-19 pandemic, the owner decided to close three other branches and reduce the number of employees, so now Mbok Dower has only one unit. This year,

Mbok Dower's business situation has begun to improve. The monthly turnover can reach IDR 30,000,000 with a daily gross profit of up to IDR 1.000.000 – IDR 1.500.000.

Mbok Dower Restaurant can be classified as a Micro Business based on the criteria specified in Government Regulation Number 7 of 2021 because Mbok Dower Restaurant has annual sales proceeds of more than IDR 200.000.000. The following requirements must be met to qualify as a small business under Government Regulation Number 7 of 2021: 1) have capital up to a maximum of IDR 1.000.000.0000 excluding land and buildings used as business premises; and 2) have annual sales of up to a maximum of IDR 2.000.000.000.

With a large enough turnover in this business, it is conceivable for Mbok Dower Restaurant to grow into a larger business in the future. Unfortunately, this business has not implemented SAK EMKM in preparing its financial statements. Mbok Dower Restaurant only prepares a simple income statement, which includes income and expenses. They also do a simple grouping of expenses, comprising marketing, rental, and salary costs. As for the statement of financial position and notes to the financial statements, they are never made. Mbok Dower Restaurant solely keeps track of its daily revenue on a book and also with an application, namely "Kasir Pintar." These circumstances prove that Mbok Dower has not implemented SAK EMKM in preparing its financial statements.

Ultimately, it is essential to evaluate the results and procedures of the accounting activities that Mbok Dower Restaurant has been implementing. By implementing SAK EMKM, it is hoped that Mbok Dower Restaurant will be able to provide more detailed financial statements with higher-quality information. So that the operations can be documented and used as a basis for evaluation for the next period while also leaving open the option that Mbok Dower might later apply for a loan from a financial institution in order to increase capital.

Seeing the large contribution of MSMEs to GDP, creating jobs, and gathering business investment, shows that MSMEs have the potential to assist the economy

in Indonesia grow rapidly. However, the high potential of MSMEs in the Indonesian economy appears to be not balanced with the quality of the MSMEs themselves, such as the inability for MSMEs in managing their business as well as preparing financial statements in accordance with applicable standards. Most MSMEs in Indonesia only record their business activities as cash receipt and cash disbursement. In other hand, financial statements are one of the key factors for business success.

The majority of MSMEs in Indonesia still have not implemented the applicable standards, namely SAK EMKM in preparing financial statements. This statement is supported by the results of research conducted by Kirowati & Amir (2019) where most MSMEs in Madiun still have not implemented SAK EMKM in preparing financial statements. In line with previous research, the results of research by Purba (2019) also show that the majority of MSMEs in Batam have not implemented SAK EMKM in their financial statements. That is because the incomplete information about SAK EMKM, the financial management that is run by the owner, as well as the limited time in managing the business financial. Additionally, the research results conducted by Putra (2018) show that 74.6% of MSME owners in Tangerang Selatan realized the importance of understanding SAK EMKM. However, most MSMEs (80.4%) in Tangerang Selatan still have not implemented SAK EMKM in preparing financial statements. This is due to the business owner's age, educational background, poor quality human resources, the number of transactions that occur, and the lack of socialization about SAK EMKM.

1.2. Research Problems

Based on research background above, the research problems of this research are as follows:

1. How is the implementation of SAK EMKM in the preparation of the financial statements of Mbok Dower Restaurant?

1.3. Research Objectives

The objectives of this research are as follows:

1. To find out the implementation of SAK EMKM in the financial statements of Mbok Dower Restaurant.

1.4. Research Contribution

1.4.1. Theoretical Contribution

- 1) Researcher

It is expected to provide an opportunity for the researcher to apply the knowledge and theories obtained during lectures and learn directly to prepare financial statements under applicable standards, namely SAK EMKM.

- 2) Further Research

It is expected to add the literature review for further researcher and become a reference in further research conducted by other academics.

- 3) Society

It is expected to add knowledge for society regarding the preparation of financial statements in accordance with SAK EMKM is very important for business development. Drafting role financial reports according to SAK EMKM can provide solutions for the development of MSMEs in Indonesia.

1.4.2. Practical Contribution

- 1) For Mbok Dower Restaurant

It is expected that Mbok Dower Restaurant can use the results of this research to start implementing SAK EMKM and improve its financial statements. So it can produce good financial statements in accordance with SAK EMKM, which can improve the quality of MSMEs and make it easier for Mbok Dower Restaurant to increase access to capital loans from banks.

2) For Government

It is expected that the government can use the research results as a reference in improving training activity related to preparing financial statements based on SAK EMKM for MSMEs to compete in the global market.

3) For Indonesian Accounting Association (IAI)

It is expected that IAI can use the research results as a reference in compiling and developing accounting standards for MSMEs to be more efficient and easily applied.