

CHAPTER II

LITERATURE REVIEW

2.1 Accounting

2.1.1 Definition of Accounting

American Accounting Association defines accounting as a process of identifying, measuring, and reporting economic information, to enable the assessment and decision clearly and expressly for those who use the information. From the definition described by American Accounting Association says that accounting is a cycle (process) in conduct of financial activity recording, both the company's financial activities, organizations, and governments, and the results of such postings generate a report (overview) that contains all the financial activities of which occurred during the financial accounting period in one year; and the financial statements are used by parties who have an interest to a particular entity, such as a manager and investors who have the authority in making decisions on an entity.

American Institute of Certified Public Accountants (AICPA) defines accounting as follows: Accounting is the art of recording, classifying, and summarizing in a certain way and in monetary measure, transactions, and events are generally of a financial nature and includes interpreting the results.

Warren et al (2005: 10) explains that : "in general, accounting could be defined as an information system that generates a report to the parties concerned of the economic activity and the condition of the company".

2.1.2 The Purposes of Accounting

The purpose of accounting according to various sources could be seen from the following explanation :

Soemarso states that : "The main purpose of accounting is to present economics information of an economic entity to the parties concerned.

According to Harahap in Accounting Theory book, formulating 4 accounting purposes as follows:

1. Making the decision regarding the use of limited wealth and to set the goals.
2. Directing and controlling the human resources and other production factors effectively.
3. Maintaining and reporting the announcement of the wealth.
4. Assisting the function and social control.

2.2 Financial Statements

2.2.1 Definition of Financial Statements

According to Harahap, (2006: 105), the financial statements are the report that describe the financial condition and operation results of a company at a particular time period.

According to Munawir, the financial statements is historical and thorough as a progress report. Moreover, it is said that the financial statements consist of datas that is the result of a combination of the recorded fact, principles, and accounting convention and postulate, as well as personal judgment.

According to Hanafi and Halim, in the book of Analysis of Financial Statements (2002: 63), Financial Statements is the report that is expected to provide information about the company, and combined with other information, such as industrial, economic conditions, and could give a better overview about the prospects and risks of the company.

2.2.2 The Purposes of Financial Statements

Purpose financial statements are grouped into two, namely:

1. Specific Purposes financialstatements aim to present fairly, and in accordance with generally accepted accounting principles, the financial position, operations result, and other changes in financial position.
2. In accordance with GAAP no. 1 (revised 1998), the general objective of financial statements is as follows:

- a. Providing the information about the financial position, performance and cash flows of companies that are beneficial to the majority of report users in making economic decisions
- b. Demonstrate the responsibility of management over the use of the resources entrusted to them.

2.2.3 Quality of Financial Statements

According to Rudianto (2012: 21), every company has a business sectors and different characteristics from one to another, so that the details of the financial statements of the company with other companies are also different. However, the financial statements produced by each institution must meet the quality standards as follows:

1. Understandability

The quality of the essential information presented in the financial statements is its simplicity to be understood by the user immediately. Thus, the user is assumed to have adequate knowledge of business and economic activities, accounting, and a willingness to study the information with great diligence. However, the interest that the financial statements can be understood but not in accordance with the relevant information should be ignored by the consideration that the information is too difficult to be understood by a particular user.

2. Relevant

To be useful, the information must be relevant to the needs of users for decision-making process. The information have relevant quality if the information can influence the economic decisions of user in a way to help evaluate the past events, present, or future, affirm, or correcting the results of the evaluation in the past.

3. Materiality

Information is deemed to be material if the failure to list or errors in recording this information can influence the economic decisions of the users taken by the basis of the financial statements. Materiality depends on the size of the post or errors are graded according to the specific situation of omission or errors misstatement

4. Reliability

The information presented in the financial statements have to be reliable. Information will have reliable quality if free from material error and biases, and honestly present what is supposed to be served or are reasonably expected to be presented. The financial statements are not free of biases if the intention is to influence the decision-making or policy for the purpose of achieving a particular results.

5. Substance exceed the form

Transactions, events, and other conditions are recorded and presented in accordance with the substance and economic reality, not only their legal form. This is to improve the reliability of financial statements.

6. Sound Judgment

We should not ignore the uncertainty that includes a variety of events and circumstances that are understood by the disclosure of the nature and explanation of the events and circumstances, or through the use of sound judgment in preparing financial statements. Sound reasons contains elements of caution when giving judgment required under conditions of uncertainty, so that assets or income are not presented higher and liabilities or expenses are not presented lower. However, the use of sound judgment does not allow the formation of higher assets. shortly, sound judgment is not to be biased.

7. Completeness

The information in the financial statements should be complete by the limits of materiality and cost. Deliberate not to disclose will result in information being incorrect or misleading so unreliable and insufficient in terms of the relevant.

8. Compatibility

Users should be able to compare the financial statements of entities between periods to identify trends in financial position and performance. Users also should be able to compare the financial statements between entities to evaluate the financial position, performance, and changes in financial position relatively. Therefore, measurement and presentation of the financial effects of transactions and other similar events should be done consistently for an entity, between periods for these entities, and for different entities.

9. Just In Time

To be relevant, the information in the financial statements must be able to influence the economic decisions of users, just in time to provide financial statement information in decision-making period. If there is undue delay in reporting, information generated will lose its relevance. Management may need to balance the relative between punctual reporting and the provision of reliable information. To achieve a balance between relevance and reliability, the main concern is to provide what is best to meet the needs of users in making economic decisions.

10. The balance between costs and benefits

Benefits of information must be exceed the cost of supplying . But, the evaluation of costs and benefits is a substantial consideration process. Cost is also not to be borne by users who enjoy the benefits. In the evaluation of the

benefits and costs, the entity must understand that the benefits are enjoyed by external users.

2.2.4 Presentations of financial Statements

1. Fair Presentation

The financial statements present the financial position fairly, financial performance, and cash flows of an entity. Fair presentation requires the presentation of truth against the effects of transactions, events, and other conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

2. Compliance with SAK ETAP

The entities whose financial statements complies with SAK ETAP must make an explicit and unreserved statement on such compliance in the notes to the financial statements. The financial statements should not be declared to complies with SAK ETAP unless it complies with all the requirements in SAK ETAP.

3. Business Continuity

At the time of preparing the financial statements, management of entity is using the SAK ETAP make an assessment of the entity's ability to continue the business continuity. The entity has a business continuity unless management

intends to liquidate the entity or suspended operations, or has no realistic alternative but to do these things.

4. Frequency of Reporting

The entity presents a complete financial statements (including comparative information) at least once a year. When the end of the reporting period of the entity changes and annual financial statements have been presented for a longer or shorter period than one year, it shall disclose:

- a. The facts
- b. Reason for use for a longer or shorter period; and
- c. The fact that comparative amounts for the income statement, statement of changes in equity, income statement and retained earnings, cash flow statement and, the notes to financial statements are related is not able to fully comparable.

5. Consistent Presentation

The presentation and the classification of items in the financial statements should be consistent between periods, unless:

- a. Significant changes in the nature of the entity operating or change the presentation of the classification aims to produce a better presentation in accordance to criteria for selecting and applying accounting policies in Chapter 9 Accounting Policies, Estimates and Errors; or
- b. SAK ETAP requires a change in presentation.

2.3 Financial Accounting Standards of Entities Without Public Accountability (SAK ETAP)

2.3.1 Definition of Financial Accounting Standards of Entities Without Public Accountability

Financial Accounting Standards for The entities Without Public Accountability (SAK ETAP) is intended to be used entities without public accountability. The entities without public accountability is the entity that:

- a. Do not have a significant public accountability; and
- b. Publish general purpose financial statements (general purpose financial statements) for external users. The examples of external users are owners who are not directly involved in business management, creditors, and credit rating agencies.

Entity has public accountability significant if:

- a. The entities has filed a registration statement, or in the process of submission of the registration statement, in capital market authority or other regulator for the purpose of issuance of securities in the capital markets; or
- b. The entities control the assets in a fiduciary capacity for large groups of people, such as banks, insurers, brokers and or stockbrokers, securities, pension funds, mutual funds, and investment banks.

Table 2.1
The Distinction of GAAP and SAK ETAP

No	Element	GAAP	SAK ETAP
1	Presentation of Financial Statement	<ul style="list-style-type: none"> - Statement of Financial Position - The information presented in statement of financial position - The difference in current and non-current assets and short-term and long-term liabilities - Current Assets - Short-term Liabilities - The information presented in the statement of financial position or notes to the financial statements - (Change the terms in ED GAAP 1: Balance Sheet becomes Statements of Financial Position, liability becomes liabilities) 	<p>Same with GAAP, unless the information presented in the balance sheet, which eliminates :</p> <ul style="list-style-type: none"> - Investment properties of Financial assets are measured at fair value (ED GAAP 1) - Biologic assets measured at acquisition cost or fair value (ED GAAP 1) - Long-term interest-bearing liabilities - Deffered tax assets and liabilities - Non-controlling interest
2	Income Statement	<ul style="list-style-type: none"> - Comprehensive Income Statement - The information presented in comprehensive income statement - Income statement for the period - Other comprehensive income for the period - The information presented in the income statement or notes to financial statements 	<p>Not the same as GAAP is using the term comprehensive income statement, SAK ETAP uses the term income statement.</p>
3	Presentation of Statement of		<p>Same with GAAP, except for a few things related to other</p>

No.	Element	GAAP	SAK ETAP
	changes in equity		comprehensive income.
4	Notes to financial Statement	<ul style="list-style-type: none"> - Notes to financial statement - structure - Disclosure of accounting policies - Sources of uncertainty estimation - Capital (ED GAAP 1) - Other disclosures 	Same with GAAP, except for capital disclosures.
5	Cash Flow Statement	Cash flow of operating activities: direct and indirect methods Cash flow of investing activities Cash flow of financing activities Cash flows of foreign currency Cash flow interest and dividends, income tax, non-cash transactions	Same with GAAP, except : <ul style="list-style-type: none"> - Cash flow operating activities: indirect methods - Cash flow of foreign currency, are not regulated.
6	Consolidated and separate financial statements	<ul style="list-style-type: none"> - Requirements consolidated Financial Statements - Special purpose entities 	Not regulated (see Chapter 12).
		<ul style="list-style-type: none"> - Consolidation procedure - Separate financial statements - The combined financial statements 	
7	Accounting policies, estimates and errors	GAAP 25 (Profit or Loss for the current period , Fundamental Errors and Changes in Accounting Policies) <ul style="list-style-type: none"> - Profit or loss for the current period - Fundamental Errors - Changes in Accounting Policies 	SAK ETAP has one step forward compared to GAAP (no "fundamental error" and "extraordinary profit or loss").

No.	Element	GAAP	SAK ETAP
		<ul style="list-style-type: none"> - Selection and application of accounting policies - Consistency and changes in accounting policies - Changes in Accounting estimates - Errors - Extraordinary post - Profit or loss of normal activities - Operations are not continued - Changes in accounting estimates - Implementation of a financial accounting standards - Other changes in accounting policies - 	
8	Basic Financial Instruments	<ul style="list-style-type: none"> - Scope : financial assetes and liabilities - basic financial instruments : Classified at fair value through profit or loss, held-to-maturity, available for sale, loans and loans granted Impairment is using the incurred losses concept - Derecognition - Hedging and derivatives - Scope : investing in certain securities - Classification of trading, held to maturity, and available for sale. This has reference to 	GAAP 50 (1998).

No.	Element	GAAP	SAK ETAP
9	Inventories	<ul style="list-style-type: none"> - Measurement of inventories - Cost of inventories - Cost of purchase - Cost of conversion - Other costs - Cost of inventories provision of services - Cost measurement technique - Cost formula - Net Realizable Value - Recognition as an expense - Disclosure 	Same with GAAP
10	Investments in Associates and Subsidiaries	<ul style="list-style-type: none"> - Scope : associates - The accounting method - The cost method - Equity method - The fair value model (ED IAS 15) - Scope : associates and subsidiaries - The accounting method - Associates : Cost method - Subsidiaries : 	Equity method
11	Investments in Associates and Subsidiaries	<ul style="list-style-type: none"> - Jointly controlled operation, assets, and entity - Accounting Method - The proportioned consolidated Method - Equity Method - The fair value model (ED PSAK 12 : Jointly Controlled Assets / Jointly Controlled Operations / Jointly Controlled Entities) 	Same with GAAP except for accounting method only uses the cost method.
12	Investment Property	Accounting method <ul style="list-style-type: none"> - The fair value model 	Accounting method : Cost model

No.	Element	GAAP	SAK ETAP
		Cost model	
13	Fixed Assets	<ul style="list-style-type: none"> - Using componentization approach - Measurement is using the cost model or the revaluation model - Measurement of the cost of acquisition - Recognition subsequent expenditure - Depreciation - Do not need to review the residual value, depreciation method and useful life at the end of each reporting period, but if there is any indication of change 	Same with GAAP except : <ul style="list-style-type: none"> - Do not use the componentization approach. - Revaluation permitted if done by government regulation. It refers to GAAP 16 (1994) - Do not need to review the residual value.
14	Intangible Assets	<ul style="list-style-type: none"> - General principles for recognition - Initial recognition, subsequent measurement - Amortized over the useful life or in 10 years - Impairment 	Same with GAAP, except for intangible assets acquired from business combination.
		<ul style="list-style-type: none"> - Use the purchase method - Goodwill is amortized over 5 years or 20 years with justification management 	Not regulated
15	Lease	<ul style="list-style-type: none"> - Set the agreement contains lease - The classification is principle-based - The financial statements of lessees and - Do not set containing 	

No.	Element	GAAP	SAK ETAP
		a lease agreement (Interpretation of SFAS 8)	
		Lessor	<ul style="list-style-type: none"> - Classification of leases: a combination of IFRS for SMEs and SFAS 13 - The financial statements of lessees and lessors using GAAP 30 (1990): Accounting for Leases
		<ul style="list-style-type: none"> - Estimated liabilities - Contingent liabilities - Contingent assets 	Same with GAAP
16	Equity	<ul style="list-style-type: none"> - Explanation - Equity accounting for business entities instead of intercorporated company - Equity accounting for intercorporated company - Reorganization - Revaluation 	Same with GAAP, except for : <ul style="list-style-type: none"> - Reorganization - Revaluation
17	Revenues	<ul style="list-style-type: none"> - Sales of goods - Sales of services - Construction contracts - Interest, dividends and royalties - The case reports revenue recognition (ED GAAP 23) 	Same with GAAP.
18	Loans cost	<ul style="list-style-type: none"> - Components of loans costs - Recognition and capitalization of loans costs 	Loans costs directly charged
19	Impairment of Assets	<ul style="list-style-type: none"> - Impairment of inventories - Impairment of non-inventory - Impairment of goodwill 	Same with GAAP, except : <ul style="list-style-type: none"> - The scope covers all types of assets. - Do not set the impairment of goodwill - There is an additional impairment of loans and

No.	Element	GAAP	SAK ETAP
		-	receivables are using IAS 31: Accounting for Banks paragraphs 16 and 17.
20	Employee Benefits	<ul style="list-style-type: none"> - Short-term employee benefits - Post-employment benefits, for defined benefit using PUC - Other long-term benefits - Employment termination benefits 	Same with GAAP, except for defined benefit, it is using a PUC and if not, use a simplified method
21	Income Tax	<ul style="list-style-type: none"> - It is using <i>deferred tax concept</i> - Recognition and measurement of current tax - Recognition and measurement of deferred tax - Using the concept of tax payable - There is no recognition and measurement of deferred tax 	
22	The reporting currency	<ul style="list-style-type: none"> - Recording and reporting currency - The functional currency - Determination of initial balance - comparative presentation - Changes in the recording and reporting currency 	Same with GAAP, the Reporting Currency <ul style="list-style-type: none"> - The functional currency - Reporting foreign currency transactions in the functional currency - Changes in the functional currency (On the same principle)
23	Events after the end of the reporting period	<ul style="list-style-type: none"> - Events that require adjustment - Events that do not require adjustment 	Same with GAAP
24	Disclosure of related parties	<ul style="list-style-type: none"> - Understanding related parties - Disclosure 	Same with GAAP No. 7

No.	Element	GAAP	SAK ETAP
25	Special activities	<ul style="list-style-type: none"> - Accounting for cooperatives - Accounting for oil and gas - Accounting for general mining - Accounting for securities firms - Accounting formutual funds - Accounting for banking and insurance 	Not regulated
26	Transitional provisions		<ul style="list-style-type: none"> - Retrospective or prospective (if not practical) are applied catchup prospectively (impact to retained earnings) - Transfer from and to SAK ETAP
27	Effective date		Shall be effective for financial statements beginning on January 1, 2011, earlier application is January 1, 2010

Sources: Indonesian Accountant magazine; 19th edition, August 2009

2.3.2 The objectives of preparation of Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP)

Dwi Martini (2011) states that the implementation of SAK ETAP is simpler than the general application of GAAP referring to the IFRS because SAK ETAP referring to the accounting practices that are currently used. Basir (2010) states that the implementation of SAK ETAP liberally applied by entities without public accountability (ETAP). if ETAP does not have a future development plan, the business is run in a simple way, does not necessarily require funding from its

financial institutions, then this entity does not need to apply GAAP . Entities that have significant public accountability can use SAK ETAP if the competent authorities make regulations to permit the use of SAK ETAP (Sharif: 2010).

SAK ETAP has 30 chapters comprising some 182 pieces of the scope, concepts and pervasive principles, presentation of financial statements, balance sheet, income statement, statement of changes in equity, cash flow statement, and others. it includes accounting reporting standards for each account like GAAP .

Here is a division of chapters in SAK ETAP.

Chapter 1	The scopes
Chapter 2	The concept and pervasive principles
Chapter 3	Presenttation of financial statements
Chapter 4	Balance sheet
Chapter 5	Income statement
Chapter 6	Statement of changes in equity and income statement and retained earnings
Chapter 7	Cash flows statement
Chapter 8	Notes to financial statements
Chapter 9	Accounting policies, estimation, and errors
Chapter 10	Investment in certain securities
Chapter 11	Inventories
Chapter 12	Investments in associates and subsidiaries
Chapter 13	Investments in joint venture
Chapter 14	Investment property
Chapter 15	Fixed assets

Chapter 16	Intangible assets
Chapter 17	Lease
Chapter 18	Estimated liabilities and contingent
Chapter 19	Equity
Chapter 20	Revenues
Chapter 21	Loan costs
Chapter 22	Impairment of assets
Chapter 23	Employee benefits
Chapter 24	Income tax
Chapter 25	Reporting currency
Chapter 26	Transactions in foreign currencies
Chapter 27	Events after the end of reporting period
Chapter 28	Disclosure of related parties
Chapter 29	Terms of the transaction
Chapter 30	Effective date

Sources : SAK ETAP, 2009

2.3.3 The financial statements according to SAK ETAP

GAAP ETAP (2009) explains that the financial statements of an entity include:

1. Balance Sheet

Balance Sheet presents the assets, liabilities, and equity of an entity on a certain date - the end of the reporting period and a minimum report include the following items:

- a. Cash and cash equivalents
- b. Receivables and other receivables
- c. Inventories
- d. Investment property
- e. Fixed assets
- f. Intangible assets
- g. Accounts payable and other debt
- h. Tax assets and liabilities
- i. Estimated liabilities
- j. Equity

In SAK ETAP number 4 paragraph 5 states that the entity shall present current assets and non-current assets, current liabilities and long-term liabilities, as a separate classification in the balance sheet. The classification is as follows:

a. Current Assets

SAK ETAP (2009: 20) states that the entity classifies assets as current assets if:

1. It is expected to be realized or held for sale or use, within the normal operating cycle of the entity,

2. It is owned for trading,
3. It is expected to be realized within 12 months after the end of the reporting period; or
4. The form of cash or cash equivalents, unless restricted use of exchange or used to settle the obligation at least 12 months after the end of the reporting period.

b. Short-Term Liabilities

SAK ETAP (2009: 20) states that the entity classifies the liabilities as current liabilities if:

1. It is estimated to be completed within the normal operating cycle of the entity,
2. It is owned for trading,
3. The liabilities will be settled within 12 months after the end of the reporting period; or
4. The entity does not have an unconditional right to defer settlement of liabilities at least 12 months after the end of the reporting period.

2. Income Statement

The income statement put all earnings and expense items recognized in a period unless SAK ETAP requires something else. SAK ETAP set the different treatment of the impact of corrections to errors and changes in accounting

policies are presented as adjustments to previous period and not as the part of the profit or loss in the period of change. (IAI, 2009: 23)

Income statement includes the minimum following items :

- a. revenue;
- b. Financial Expenses;
- c. Share of profits or losses of the investment using the equity method;
- d. Tax Expense;
- e. Profit or net loss.

3. Statement of Changes in Equity

Statements of changes in equity of the entity presents profit or loss for the period, income and expense recognized directly in equity for the period, the effect of changes in accounting policies and corrections of errors recognized in the period (depends on the format of the statement of changes in equity chosen by the entity), the amount of investment, and dividends and other distributions to the owners equity during the period.

SAK ETAP (2009: 26) states that the entity presents the statement of changes in equity which shows:

1. Profit or loss for the period;
2. Income and expense recognized directly in equity;
3. For each component of equity, the effect of changes in accounting policies and corrections of errors recognized in accordance to Chapter 9 in the Accounting Policies, Estimates and Errors;

4. For each component of equity, a reconciliation between recorded amount of the beginning and end of the period.

4. Cash Flow Statement

Cash flow statement presents information on the historical changes in cash and cash equivalents of an entity, which shows separately the changes that occurred during the period from operating, investing, and financing activities. (IAI, 2009: 28). The information presented in the cash flow statement according to SAK ETAP cited by Ranu Agus (2011), which is as follows :

- a. Operating Activities
- b. Investing Activities
- c. Financing Activities

5. Notes to Financial Statements

Notes to financial statements contain additional information as represented in the financial statements. Notes to the financial statements give a narrative explanation or details of the amounts shown in the financial statements and information of items that do not meet the criteria for recognition in the financial statements. (IAI 2009: 34)

Notes to financial statements should :

- a. Present information about the basis of preparation of financial statements and specific accounting policies;

- b. Disclose the information required by SAK ETAP but not presented in the financial statements; and
- c. provide additional information that is not presented in the financial statements, but is relevant to understanding the financial statements.

2.3.4 The Elements of financial statements in accordance with SAK ETAP

According to SAK ETAP, the elements of financial statements consist of :

1. Assets

Assets are resource controlled by the entity as a result of past events and from which future economic benefits expected to be obtained by the entity.

(SAK ETAP, 2009: 2.12)

2. Liabilities

According to the Indonesian Accountant Institute (2009: 7), the essential characteristics of liabilities is that the entity has a present obligation to act or to carry out something in a certain way. Liabilities can be either legal obligations and constructive obligation. The obligation can be imposed by law as a consequence of a binding contract or legislation. Constructive obligation is the obligation that arises from the entity's action when :

- a. By default practice of the past events, published policies or a sufficiently specific current statement, the entity has provide an indication to other parties that the entity will accept certain responsibilities; and

- b. As a result, the entity has raised a strong and legitimate expectations of the other parties that the entity will carry out these responsibilities.

3. Expenses

Expenses are decreases in economic benefits during the reporting period in the form of outflows or a decrease in assets, or the occurrence of liabilities that result in decreases in equity that is not related to distributions to investors. (SAK ETAP, 2009: 2.20)

4. Revenue

Revenue is income that arises in the implementation of the ordinary activities of the entity and known as different word as sales, benefits, interest, dividends, royalties and rent. (SAK ETAP, 2009: 2.22)

5. Equity

Equity is the residual interest in the assets of an entity after deducting all liabilities. Equity may be subclassified in the balance sheet. For example, a entity of intercorporated company , subclassifications may include funds contributed by shareholders, retained earnings and gains or losses recognized directly in equity. (SAK ETAP, 2009: 2.19)

2.4 Small and Medium Enterprises (SMEs)

Definition of Small and Medium Enterprises vary considerably of each countries depending on the concepts used in that country. Referring to the Act No. 20 In 2008, the type of business is divided into three levels based on their capital needs. The levels consist of : micro businesses, small businesses, and medium-sized businesses.

2.4.1 Micro Business

Micro business is productive business owned by an individual or business entity owned by individuals who meet the criteria :

- a. Has a net worth of Rp 50,000,000 (fifty millions rupiah), excluding land and buildings.
- b. Have annual sales of more than Rp 300,000,000 (three hundred millions rupiah)

2.4.2 Small business

Small businesses, is productive economic enterprises which independent performed by an individual or business entity that is not a subsidiary or branch company who owned, controlled or become part either directly or indirectly, of a medium or large businesses that meet the criteria :

- a. Has a net worth of more than Rp 50,000,000.00 (fifty million rupiah) up to maximum Rp 500,000,000.00 (five hundred million rupiah) excluding land and buildings; or

- b. Has annual sales of more than Rp 300,000,000.00 (three hundred millions rupiah) up to maximum Rp 2.500.000.000,00 (two billion five hundred million rupiah).

2.4.3 Medium-sized Business

Medium-sized business is productive economic enterprises which independent performed by an individual or business entity that is not a subsidiary or branch company who owned, controlled or become part either directly or indirectly, of a medium or large businesses that meet the criteria :

- a. Has a net worth of more than Rp 500,000,000.00 (five hundred millions rupiah) up to maximum Rp 10,000,000,000 (ten billions rupiah) excluding land and buildings; or
- b. Has annual sales of more than Rp 2,500,000,000 (two billions five hundreds millions rupiah) up to maximum Rp 50,000,000,000 (fifty billions rupiah).

2.5 Services

2.5.1 Definition of services

Generally, the service is the provision of a performance or invisible action from one party to another. Generally services are produced and consumed simultaneously, where the interaction between service providers and service recipients affect the outcome of such services. Services are also defined as something that is produced and consumed simultaneously, the results can be seen after the services occurred. according to Norman (1984), services consist of

actions and interactions that are social contacts. Service is more than just the result of something that is not blocked, and services is the social interaction between producers and consumers.

2.5.2 The distinction of goods and services

Table 2.2
The Distinction of Goods and Services

Goods	Services
Tangible	Intangible
Can be stored	Can not be stored
The process mostly using by the machine	The process mostly using by the human process
Produced first, then consumed	Produced coincide with consumed
Lack of direct contact with customer	High direct contact with customer
The quality is objective	The quality is subjective
The product easy to standardized	The product hard to standardizedd
Resale can be done	Resale can not be done

Source : Herjanto (2008)

Besides differences in the products and services above, there are also different unique characteristics factors of services from product marketing. The uniqueness of the characteristics of the service than the product lie on : inseparability, variability, perishability, and lack of ownership.

1. Inseparability

Inseparability reflect inseparable between the service provider and consumer, consumer involvement in the process of receiving services in the production process.

2. Variability

Variability show that the performance of services is very difficult to control and so relative because the service is very dependent to whom, when, and where the services are presented.

3. Perishability

Perishability of services is limited, considering the process and the usage is done simultaneously and do not enable to safe.

4. Lack of ownership

A service does not allow permanently and personally owned by consumers. Ownership and its access possess a certain period.

2.6 Previous Research

Title	Method	Author	Discussions
PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS OF FINANCIAL ACCOUNTING	Qualitative research with case study approach	Arum Puspita Sari	- Financial statements prepared by the Company Cigarette Poster Natural is daily petty cash reports, large cash reports daily, daily bank statements, income statements, balance

<p>STANDARDS BASED ON ENTITIES WITHOUT PUBLIC ACCOUNTABILITY (Case Study on Trubus Alami Cigarette Company) (2014)</p>			<p>transfer, and reports the details of the debt. Natural Poster Cigarette Company has not presenting financial statements in accordance with GAAP ETAP. Income statement and balance sheet presented are still not in accordance with GAAP ETAP. Natural Poster Cigarette Company has recognized cash, revenue, and its debt in accrual basis.</p>
<p>PREPARATION OF FINANCIAL STATEMENTS OF FINANCIAL ACCOUNTING STANDARD BASED ON ENTITIES WITHOUT PUBLIC ACCOUNTABILITY (SAK ETAP) AND DEVELOPMENT EFFORT FOR BATIK CRAFTSMEN SMALL AND MEDIUM ENTREPRISES (2014)</p>	<p>Qualitative Research</p>	<p>Vicky Diacahya</p>	<p>- Batik Lopo Loro in Solo has not perform accounting records and prepare the financial statements based on SAK ETAP yet. Batik Loro Lopo has constraints in preparing the financial statements, lack of human resources that have the ability to prepare the financial statements because more time focused on operational activities.</p>
<p>IMPLEMENTATION OF PREPARATION OF FINANCIAL STATEMENTS FOR THE SMALL AND MEDIUM ENTREPRISES ACCORDING TO FINANCIAL ACCOUNTING STANDARD BASED ON ENTITIES WITHOUT PUBLIC ACCOUNTABILITY (case study on Brebes Fried Chicken SMEs) (2013)</p>	<p>Qualitative Research with case study approach</p>	<p>Edi Siswono</p>	<p>- Brebes Fried Chicken SMEs had never prepare and create the financial statements of the business itself. In the preparation of financial statements, the constraints for Brebes Fried Chicken SMEs are lack of human resources that have the ability to prepare the financial statements and the lack of focused to make financial reports because the time is maximized on business operations. Based on the discussions above, the author seeks to help Brebes Fried Chicken SMEs in designing and presenting financial statements based on SAK ETAP on</p>

			existing theory by applying the accounting cycle so it can produce good, appropriate and adequate financial statements for Brebes Fried Chicken SMEs.
PREPARATION OF FINANCIAL STATEMENTS ACCORDING TO FINANCIAL ACCOUNTING STANDARD BASED ON ENTITIES WITHOUT PUBLIC ACCOUNTABILITY (SAK ETAP) FOR SMALL AND MEDIUM ENTREPRISES (2012)	Qualitative research with case study approach	Hermon Adhy Putra & Elisabeth Penti Kurniawati	- The constraints in preparing the financial statements are lack of human resources that have the ability to prepare the financial statements and the lack of focused to make financial statements because of the time is more focused on business operations, and the application of Microsoft Excel with the formula that has been designed to facilitate SMEs in generating financial statements based on SAK ETAP
IMPLEMENTATION OF THE ACCOUNTING BASED ON SAK ETAP IN SIDOARJO BATIK VILLAGE SMEs (2012)	Qualitative Research	Im MA'rifat Auliyah	- All the informant who is the owner and manager of SMEs in Sidoarjo batik village have different views with one to another regarding the accounting. This is evident from how they define accounting. Some batik village entrepreneurs have a simple financial statement that they use to evaluate and control the work they run. Financial statements are prepared is the income statement with a simple format. Existence of Financial Accounting Standards Entities Without Public Accountability (on SAK ETAP) is intended for small and medium enterprises has not been known by the owners in the area of Sidoarjo batik village. Lack of socialization becomes a major factor for the less knowledge of SAK ETAP in SMEs environment.

Figure 1
Conceptual Framework

