HERMENEUTICS OF FINANCIAL ACCOUNTING STANDARDS FOR MEDIUM-SMALL MICRO ENTITIES

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ABSTRACT

The numerous of MSME numbers in Indonesia have not equivalently proportional to the quality of the presentation of MSME financial statements. The problem faced in applying these accounting standards is the simplicity of standards, both in the use of language and the application of accounting principles. MSME financial standard is socialized as the simplest accounting standard. However, the definition is given by accounting practitioners who are familiar with the financial term. Thus, its meaning cannot be generalized. Therefore, this study was made to accommodate differences in perceptions of MSME financial standard, based on the theory of interest groups to determine the role of stakeholders in the preparation of MSME financial standards. Thus, it’s can be applied by SMEs. This theory bridges conflicts of interest in the preparation of standards through consensus, namely the accommodation of opinions of interest groups in the preparation of standards, so that in practice those who reject the standard at the time of standard preparation will still use financial statements based on MSME financial standards. The research method is designed in such a way as to produce technical guidelines for the preparation of simple and applicable financial statements. In addition, socialization and assistance in preparing financial statements will also be conducted to determine the effectiveness of MSME financial standards.

Keywords: Financial standard, micro small medium entities

INTRODUCTION

The economic crisis that occurred in 1998 in Indonesia became the evidence of the strength of micro, small and medium enterprises (MSMEs) in facing financial difficulties. The sector with the main characteristics of minimal technology and not bankable (Ayed & Zouari, 2014) actually makes this sector far from significant economic constraints. However, the same characteristics also make this sector relatively stagnant in its development. Following are the number of MSMEs from 1997 - 2013;

![Figure 1. Number of MSMEs in Indonesia](image)

Source: Processed Data, Statistics Indonesia (2017)

The percentage growth of the number of MSMEs that is not too significant from year to year is caused by constraints that are owned by this sector. These constraints are financial and non-financial constraints (Bank Indonesia, 2015). The main obstacle in developing MSME is third party funding which is influenced by the quality of financial statements (Niode et al., 2016; Ayed & Zouari, 2014; Abdulraheem & Worthington, 2013; Syariati, 2012). However, some studies explain that MSMEs prioritize private capital over loans from third parties (Ayed & Zouari, 2014; Adair & Adaskou, 2015; Hamilton & Fox, 1998).

Furthermore, the government has tried to develop this sector by making Law (UU) No. 20 of 2008 concerning SMEs. Besides the government, the contribution of professional organizations to the problems of MSMEs is the creation of accounting standards. The launching of the Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP) which is expected to be a solution in the problem of accounting records at MSMEs has not been proven yet. Hanum (2013) mentioned that the complexity of standards makes it difficult for small entrepreneurs to use this standard. In 2016, the Indonesian Institute of Accountants Financial Accounting Standards Board (DSAK IAI) launched the SAK Micro Small and Medium Entity (EMKM) which is simpler than the other two accounting standards. Scott (2015) explained that the preparation of accounting standards is related to due process which is the active involvement of interest groups in the preparation of standards. The interest group theory (The Interest Group Theory) stated that the preparation of standards involves several parties with an interest in the application of standards (Scott, 2015; Astika, 2008). In order to function properly the standard must meet consensus (Scott, 2015), because lobbying always occurs in the preparation of Ahmad’s standards (2015).
This study is the first research that discusses the basis for the preparation of SAK EMKM and the meaning of the simplicity of accounting practices based on SAK EMKM. The theme of this research is in accordance with the objectives of the pre-eminent tertiary research schemes of tertiary institutions (PDUP) as a contribution to improving the economy through the compilation of MSME financial reports that are simple and applicable, but still of high quality. Thus, this sector not only dominates in quantity but also brings an increase in gross domestic product through broad capital access from banks and other financial institutions.

LITERATURE STUDY

Accounting Financial Standart of MSMEs

The credit worthiness of bank credit in general is influenced by 5C that is character, capital, capacity, condition, and collateral (Kasmir; 2009). The definition of capital is the company's ability to provide capital support for the success of the company's operations and the entrepreneur's commitment to the sustainability of his business. Capital can be seen from the quality of the company's financial statements. The quality or qualitative characteristics of financial statements are the suitability of the presentation of financial statements with Indonesian GAAP.

IAI (2015) stated that there are four qualitative characteristics of financial statements which are understandable, relevant, reliable, and comparable. Quality financial statements will produce financial projections, liquidity capabilities, solvency and the ability to cover operating costs appropriately. The importance of standards relates to the empirical evidence of the function of financial statements in supporting the business performance of MSME entrepreneurs (Niode et al., 2016; Ayed & Zouari, 2014; Abdulsaleh & Worthington, 2013; Syariati, 2012). Nevertheless, accounting records carried out by MSMEs are simple and inclined accounting records (Hamum, 2013; Syariati, 2014).

The government and related parties have made efforts to develop this sector with easy access to capital. Law (Law) No. 20 of 2008 concerning MSMEs Chapter 5 on growing business climate article 8 states that government and local government support in terms of funding to this sector is expanding funding sources and facilitating access to capital, increasing the number of financial institutions and expanding network access, ease of service administration, and government guarantees in disbursement of banking funds or other financial institutions. In addition to the government, the success of the development of this sector is also a shared responsibility of all elements of society and business actors. The contribution of professional organizations to the problems of MSMEs is the creation of accounting standards as the basis for the preparation and presentation of financial statements.

In Indonesia, there are three accounting standards relating to the business sector in general that is SAK in accordance with International Financial Reporting Standards (IFRS), SAK ETAP, and SAK EMKM. The three SAKs have different scopes. SAK EMKM is used by ETAP which meets the definitions and criteria of micro, small and medium enterprises as stipulated in the legislation in force in Indonesia, for two consecutive years. Other entities can be used if the authority allows that entity to prepare financial statements using SAK EMKM.

The elements in the financial statements according to SAK EMKM are divided into elements in the statement of financial position and performance elements. Elements in the financial position are assets, liabilities, and equity. Meanwhile, the elements of performance are income and expenses. The following is the definition of each element of the financial statements according to SAK EMKM:

1. Assets are controlled resources by an entity as a result of past events and future economic benefits that are expected to be obtained by the entity.
2. Liabilities are current obligations of entities which arise from past events, the settlement of which results in an outflow of resources and contains economic benefits.
3. Equity is the residual rights to the assets of an entity after deducting all of its liabilities.
4. Income is an increase in economic benefits during a certain period in the form of cash inflows or increases in assets, or a decrease in liabilities resulting in an increase in equity that does not originate from an investor's contribution.
5. Expenses are decreases in economic benefits during the period in the form of cash outflows or decreases in assets, or increases in liabilities resulting in a decrease in equity that is not caused by distribution to investors.

The basic assumptions in preparing and presenting MSME financial statements according to SAK EMKM are accruals, business continuity and entity concepts. Accruals are accounts recognized as assets, liabilities, equity, income and expenses when they meet the definition and recognition criteria for each of these accounts. Assumption of business continuity means that the entity has the ability to continue its business in the future. Meanwhile, the concept of a business entity is the separation of capital, cash, and or recording of other elements between the owner of capital and the company.

SAK EMKM stated that this SAK was made to meet the needs of MSME financial reporting for entities that do not meet the accounting requirements stipulated in SAK ETAP. There are two objectives for preparing financial statements according to SAK EMKM that is providing information on financial position and financial performance for a large number of users in making economic decisions, as well as the accountability of management for the resources entrusted to it. In line with these objectives, Day (1986) and Beaver (1989) stated that accounting information in the form of financial statements is useful for users in decision making. In addition, according to Wolk et. al (2008) one of the functions of financial statements for creditors is bankruptcy prediction and experimental analysis of credit worthiness.
The issuance of SAK EMKM is expected to be a correction of the low application of SAK ETAP to MSME actors. SAK EMKM is simpler than SAK ETAP. Some of the simplicity possessed by SAK EMKM include assumptions, number of reports, and number of standards. However, this simplicity still fulfills the principles of transparency and accountability of the entity's financial management. Examples of simplicity of SAK EMKM are the concept of historical costs, the number of financial statements, and the absence of specific regulations regarding other events or circumstances in an entity.

The use of historical costs is considered irrelevant. However, the use of fair value is not applicable for SMEs, because the cost of assessing the assets of the entity is quite large and material for SMEs. This is in line with Kieso (2014) which states that the obstacle in applying standards is the calculation of benefit costs. The financial statements prepared are only three financial statements that is Balance Sheet Reports, Income Statement, and Notes to Financial Statements (CALK). Some circles assume that the lack of financial statements can affect reporting accountability. Yet, according to Niode et. al (2016) accounting information in the form of sales growth, profit margins, own capital, ability to pay, venture capital, and inventory turnover have an effect on making credit decisions. The information is provided by the three financial statements.

The Indonesian Accounting Association has issued Micro, Small and Medium Entity Financial Accounting Standards (SAK EMKM) approved by the Financial Accounting Standards Board on 18 May 2016. SAK EMKM is effective for the preparation of financial statements beginning on January 1, 2018. Based on the scope Financial Accounting Standards for Micro, Small and Medium Enterprises (SAK EMKM) then this standard is intended for:

1. The Financial Accounting Standards for Micro, Small and Medium Enterprises (SAK EMKM) are intended for use by micro, small and medium entities.
2. Financial Accounting Standards for Micro, Small and Medium Enterprises (SAK EMKM) are used for entities that do not meet the definitions and criteria of Entity Financial Accounting Standards without Public Accountability (SAK ETAP), if the authority allows the entity to prepare financial statements based on SAK EMKM.

The general purpose of financial statements according to Irham (2012: 24) is to provide information to parties in need about the condition of a company in terms of numbers in monetary units, to provide useful information for business and economic decision makers by existing and professional investors, creditors, management, government and other users. Provides information regarding the financial position, performance and changes in the financial position of a company that is beneficial to a large number of users in economic decision making. Provide information about financial position, changes in equity performance, cash flow and other information.

According to SAK EMKM the purpose of financial statements is to provide information on the financial position and performance of an entity that is beneficial to a large number of users in economic decision making by anyone who is not in a position to request special financial statements to meet the information needs. These users include providers of resources for entities, such as creditors and investors. In fulfilling its objectives, the financial statements also show management's responsibility for the resources entrusted to it.

The entity's financial statements are prepared using the accrual basis assumption that assets, debts, equity, income and expenses are recognized or recorded at the time of occurrence or on the date of acquisition and business continuity is the ability to continue business in the future, as used by entities other than micro, small entities, and intermediate, and using the concept of a business entity is that business entities must be clearly separated from the business owner or other entities. The entity's financial statements consist of the statement of financial position, the income statement, and notes to the financial statements.

From the description above, it can be concluded that if MSMEs in recording financial statements use an accrual basis, the MSMEs are relatively ready in the framework of implementing SAK EMKM. On the other hand, if MSMEs have not recorded financial reports at all or have already recorded financial statements on a cash basis, these MSMEs are relatively unprepared in implementing SAK EMKM, because SAK EMKM uses accrual basis assumptions that make MSMEs need to adjust.

**Interest Group Theory**

Zeff (2002) explained that the economic consequences are the impact of financial reporting on the decision-making behavior of business actors, governments, countries, investors and creditors. The choice of accounting policies has consequences for various interest groups (Zeff, 2002). Wolk et. al. (2008) explained that economic conditions have an impact on political factors and accounting theory. A standard body is authorized to make standards and rules for the application of these standards. Inputs in the preparation of standards were obtained from three sources namely economic conditions, political factors, and accounting theory (Wolk et al., 2008). Therefore, the preparation of accounting standards is full of pressure from various interested parties (Schroeder et. Al, 2013). In line with the two researchers above Cahyono (2011) states that the process of making accounting standards is influenced by the country's environmental, legal, social and economic conditions.

Deegan (2004) explained the reasons for the importance of accounting regulations such as; regulation functions to make the information market run efficiently, inefficient information reduces the right of investors to obtain information, limited information causes investors not to make the right funding decisions for the company, regulations are a protection for investors, regulations have an impact on choosing uniform accounting methods so as to increase comparability of financial statements. Astika (2008) stated that there are two very different groups in looking at the importance of regulation in setting accounting standards.
The first group is a group that rejects the existence of regulations in setting accounting standards, this argument is based on agency theory which functions as a financial statement only as an introduction to accounting liability by management to users of financial statements and assumptions that accounting is used by the market so that the benefits Accounting information depends on market needs (Astika, 2008). Meanwhile, the second group is the group that supports the existence of regulations on accounting standards. The basis used by this group is the Public Interest Theory and the Interest Group Theory.

Interest Group Theory consider that regulation is a commodity, therefore, the end result is determined by the strength of demand and supply in the form of political lobbying on the establishment of effective accounting standards for business actors (Astika, 2008). Scott (2015) defines this theory as;

"The interest group theory of regulation suggests that individuals form coalitions, or constituencies, to protect and promote their interest by lobbying the government. These coalitions are viewed as being in conflict with each other to obtain their share of benefits from regulation. We shall include that the process of standard setting is most consistent with the interest group theory. (Scott, 2015)"

Based on this definition, the process of making standards is carried out on a scale of constituent lobbying (Hoffman & Zulch, 2014). The constituents in question are the parties who are interested in drafting the standards as described previously. The lobbying process is carried out by business actors because standards will affect the company's accounting policies (Ahmad, 2015). The main factor influencing the lobbying process according to Ahmad (2015) is company size. The bigger the company, the greater the potential for the company to lobby will be. Scott (2015) explained that the preparation of accounting standards is always related to due process that involves representatives of constituents preparing financial statements and facilitating public hearings, exposure drafts, and in general for openness, requires the most voting before a standard is launched. Due process is an accommodation of conflict between the parties concerned in the preparation of standards.

Accounting standards bodies are players in complex games where constituents related to standards will choose a lobbying strategy for or against a new standard. Therefore, the theory of regulation of interest groups is very suitable to describe the conflicts of the constituents rather than a counting process. The will of players to accept a new standard increases if they feel that their views are accommodated. This explains attention to due process as a measure of conflict accommodation in the preparation of standards. These considerations make the theory of interest group regulation a better predictor of new standards, because the theory of interest group formally recognizes the existence of constituent conflicts.

One of the criteria that must be considered in preparing accounting standards is consensus (Scott, 2015). This criterion relates to the political aspects in setting standards. Constituency consensus is a mandatory criterion that must be met. The standard setting process involves those who support (pro) or those who reject it. Consensus mediates that those who refuse will continue to use this standard in the practice of preparing financial statements.

Some considerations that must be considered in setting standards are the completeness of financial information, instructions for public accountants to develop the principles of prudence and independence, and considerations in government policy (Belkaoui, 2006). Watts & Zimmerman (1986) found five variables that influence the application of accounting standards, namely taxation, government regulation, political costs, information processing costs and employee bonus mechanisms.

This theory provides the view that an industry operates in the interests of groups. Group interest theory rather than regulation reviews that an industry operates representing a number of interest groups or constituents. Consideration of several manufacturing industries can be used as an example. Companies in an industry form a particular interest group, as do their customers. Other interest groups become environmental observers, whose job is to concentrate on a particular field, namely industrial social responsibility. Various interest groups will lobby to the legislature for various amounts and types of regulations. As an example; industry by itself requires regulations to protect the price competition faced or face customers in its operations with related industries. Customers may form groups to lobby for quality standards or price controls. Environmentalists may lobby to control the issuance of regulations from factories, etc.

**RESEARCH METHOD**

**Research Approach and Type**

This study seeks to analyze phenomena, events, social activities, perceptions, and attitudes of individuals and groups on the need for simpler and more applicable accounting standards for MSMEs. Therefore, researchers use a qualitative research approach with the method of phenomenology and hermeneutics to answer research problems. Researchers view that the practice of standard preparation is a phenomenon, so as to understand the phenomenon the researcher overrides the knowledge and understanding possessed by the researcher. This process is referred to as epoche. This process is carried out to obtain new information, original, and far from the bias of the researchers' arguments. In this process, the researcher enters the world of informant understanding, so that the concept captured by the researcher intact captures the role of stakeholders in the preparation of SAK EMKM.
Informants and Research Sites

The unit of analysis used in this study is the interest group in the preparation of SAK EMKM. The main informants as well as the main objects in this study are DSAt IAI, MSME actors, Creditors, and the Government. The determination criteria are the roles and users of SAK EMKM. DSAt IAI's role is to mediate interests in the preparation of standards. As a mediator the standard results will be more neutral and objective.

SMEs are the objects that will implement SAK EMKM. Therefore, it is important to accommodate the interests of SMEs so that standards can be applied. The number of research objects depends on the level of saturation and variance of the informants' answers. Creditors in this study were represented by employees of non-bank financial institutions as the main target of MSME funding. In addition, the government as a regulator also has an interest in creating a good business climate and pro-MSME policies. The government in this study will be represented by employees of the tax office as well as the cooperative and MSME offices to find out the elements that must be reported in MSME financial reporting.

FINDINGS AND DISCUSSION

Understanding of MSME Managers on SAK EMKM

SAK EMKM is an accounting standard used for micro, small and medium entities that publish financial statements for both general purposes and external users. Therefore, in this study, understanding of SAK EMKM is a person's ability to measure, classify (differentiate) and summarize the presentation of the financial statements elements in accordance with the provisions in SAK EMKM.

MSME managers' understanding of Micro, Small and Medium Entity Financial Accounting Standards (SAK EMKM) will support the process of implementing financial statements based on SAK EMKM that can help MSMEs in developing businesses. Djuharni (2012) stated that "understanding learning outcomes are the highest type of learning when compared to the type of learning knowledge". In this study, the intended understanding is the understanding of MSME managers on the basis of accounting and Financial Accounting Standards for Micro, Small and Medium Enterprises (SAK EMKM), which starts from a basic understanding of accounting about assets, debt, and capital. Then it is followed by understanding the Financial Accounting Standards of Micro and Medium Enterprises regarding measurement, basic assumptions and financial statements.

MSME managers' understanding on Micro, Small and Medium Entity Financial Accounting Standards (SAK EMKM) will support the process of implementing financial statements based on SAK EMKM that can help MSMEs in developing businesses. Djuharni (2012) stated that "understanding learning outcomes are the highest type of learning when compared to the type of learning knowledge". Understanding can be categorized into 3 levels which are:

1. The lowest level means to understand the meaning, starting from translating in the real sense, interpreting and applying principles. In this case, the business actor is expected to be able to translate the meaning of accounting as well as an understanding of applicable financial accounting standards.
2. The second level is understands of interpretation such as connecting the lowest parts by knowing the next part or connecting several parts of the graph with events, distinguishing the main and non-main. At this level, the research subjects provide opinions on the records carried out during business activities, knowledge in classifying the financial statements.
3. The third level is the level of extrapolation. In this case, it means someone is able or able to see behind the written, can estimate, predict based on the understanding and conditions presented in the form of ideas or symbols, as well as the ability to make conclusions that are connected with circumstances and their consequences. At this level, the researcher seeks to understand the research subjects' understanding of the presentation of the parts of the financial statements carried out by the business actor in accordance with the understanding.

Based on the results of a literature review conducted by researchers, it is found that MSME actors do not yet have a high understanding of SAK EMKM. At this level, MSME actors are still at the stage of translating in the real sense, interpreting and applying principles.

According to SAK EMKM, in preparing the MSME financial statements is to use the assumption of accrual basis, business entities, and business continuity. Basis of accrual basis is assets, liabilities, equity, income, and expenses recognized or recorded at the time they occur or on the date of acquisition, not based on the cash received or paid. However, the assumption of this accrual basis is unknown or not yet understood by the MSME Actors because so far, the MSME Actors record their business transactions in accordance with the cash received or cash issued. Recording of transactions based on cash received or issued is called cash basis. Regarding this fact, it can be concluded that MSME actors have not been able to understand and apply SAK EMKM in preparing their Financial Statements.
Application of SAK EMKM in Bookkeeping of MSME Financial Statements

Based on the results of a literature review conducted by researchers, it is found that in general MSME actors have not demonstrated the application of SAK EMKM. In fact, many SMEs have not kept books in accordance with the basic principles believed in accounting. Based on the results of the literature review, it can be concluded that there are still many MSMEs that have not yet carried a bookkeeping standard containing SAK EMKM, which displays the existence of financial position reports, income statements, statement of changes in equity, cash flow statements and notes to financial statements. Various reports made by MSMEs are still in the form of business reports prepared on the basis of understanding or in their own way from MSME actors.

Reports presented by the management of MSMEs in the effort of supervising or controlling business management are only limited to business reports that are made on the basis of personal understanding that is easy to find out about the progress of the business being run. The preparation of financial statements is presented in a mixture, where there is no separation between company assets and personal wealth. Supervision of profit and loss is carried out directly from the calculation of incoming and outgoing money within a certain period.

The documents used are the results of their own creations that are prepared based on the needs of each MSME. The SME entrepreneur's policy in relation to the welfare of the employees, the employee's salary is given every weekend with the standard salary set by each business owner. Entity owners also give bonuses to employees who are diligent in working Tax policies of each business are also different, some even do not pay taxes. The entity also provides a sales memorandum as proof of the transaction, but the recording of the transaction evidence is not continued until recording in the form of an accounting journal, posting to the ledger, and summarizing the balance sheet, to financial reporting.

Constraints on the Implementation of SAK EMKM in Bookkeeping of MSME Financial Statements

The management of a business is inseparable from the problems that will hinder the goal in order to create ease of business management. Likewise, MSMEs in an effort to present financial statements that are true and complete in accordance with the standards set forth in SAK EMKM. Barriers or obstacles faced are usually about time problems and limited human resources in managing financial systems that are good and right according to accounting science. Obstacles in preparing the correct financial statements and applying the rules in SAK EMKM resulted in the reports prepared not reflecting the accounting processes that are commonly applied.

This results in the lack of achievement of the objectives of the preparation of financial statements, namely to present information about transactions and financial position, performance and changes in the financial position of a company that is beneficial to a large number of users in making economic decisions.

The financial statements show what management has done or management's responsibility for the resources entrusted to him. However, it does not provide all the information that users may need in economic decision making because it generally describes the financial effects of past events and is not required to provide non-financial information. As one of the considerations in making economic decisions, financial statements that are not true in accordance with the rules of accounting and SAK in force will cause doubts. In the research that the author did, the preparation of financial statements has not implemented SAK EMKM.

Reports compiled are still limited to business reports that are made themselves according to the understanding of each manager of the entity. The limitations of entity management in implementing or preparing financial statements in accordance with SAK EMKM are caused by several factors, as follows:

1. Time limitations in managing the finances of the business being run, because in addition to having to manage finances, the owner must also control employee performance and business development from time to time.
2. Business management does not yet know about the existence of SAK-EMKM which regulates financial reporting standards for the types of businesses they manage or the businesses they run.
3. Limited human resources from the ongoing business, because in general financial management is still handled by itself by the business owner

CONCLUSION

At last, the understanding of MSME actors towards SAK EMKM is still lacking. At this level, MSME actors are still at the stage of translating in the real sense, interpreting and applying principles. From these facts it can be concluded that MSME actors have not been able to understand and apply SAK EMKM in preparing their Financial Statements. Broadly speaking, MSME actors have not shown the existence of SAK EMKM. In fact, many SMEs have not done bookkeeping in accordance with the basic principles believed in accounting. Reports made by MSME actors are still in the form of business reports prepared on the basis of understanding or in their own way from MSME actors, and the obstacles or constraints faced in applying SAK EMKM are more likely to be about time issues and limited human resources in managing a good and proper financial system according to accounting.
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