

Financial Reporting Analysis of Micro, Small and Medium Enterprise (MSMEs): Study on Tenggo Coffee

Dini Aylulliyah¹, Naz'aina^{2*}

¹Entrepreneurship Departement, Faculty Economic and Business, Malikussaleh University, Lhokseumawe, Indonesia

² Faculty Economic and Business, Malikussaleh University, Lhokseumawe, Indonesia

*Corresponding author. Email: nazaina@uimal.ac.id

ABSTRACT

This research aims to analyze financial recording for micro, small and medium enterprises (MSMEs). Data was obtained through interviews and observations of MSME actors. The data analysis technique uses qualitative descriptive analysis. The research results show that Tenggo Coffee have not carried out financial recording and reporting. Furthermore, the majority of MSMEs have never attended financial management training, especially financial reporting. Therefore, MSME actors want training and assistance in financial reporting by the government or other institutions. This information is important for local governments and related agencies in the context of counseling and assisting business management in the future.

Keywords: MSMEs, Accounting Systems, Financial Reporting, SAK UMKM

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are businesses that produce goods or services and are owned by individuals or legal entities. MSMEs are categorized based on annual revenue, total assets, and number of staff. The Indonesian Institute of Accountants (IAI) has published Financial Accounting Standards for Micro, Small and Medium Entities (SAK EMKM) for use by entities that meet the definition of significant public accountability as regulated in SAK ETAP and the characteristics in Law no. 20 of 2008 concerning MSMEs [1].

Financial reports are usually prepared quarterly, semi-annually, or annually, depending on the demands of various stakeholders. Additional information about the items included in the financial statements is presented in the notes to the financial statements [2]. To produce financial reports that comply with SAK EMKM, it is very important to be able to distinguish between the owner's personal wealth and the entity's operating assets, as well as between business This is because SAK EMKM provides a comprehensive explanation that MSMEs are legal entities.

The growth of MSMEs is very rapid with various types of business fields. MSMEs have a strategic role in economic development, playing a role in economic growth and employment, and distributing development results. The economic crisis that has occurred in our country some time ago, where many large-scale businesses experienced stagnation and even stopped their activities, the MSME sector has proven to be more resilient in facing this crisis. MSMEs are regulated in the Law of the Republic of Indonesia of 2008 concerning MSMEs which are productive businesses owned by individuals that meet the criteria for micro businesses as regulated in that law.

Generally, MSME problems are related to liquidity problems so that making MSMEs unable to grow

and develop [3]. MSMEs can overcome their capital shortage by turning to other financial mechanisms, such as bank loans. The absence of important information related to recording transactions has become a new obstacle to obtaining bank loans, so that banks and other third parties are worried about the ability of MSMEs to repay loans. [4] revealed that MSME actors are not immune from the various problems and challenges they face, including in terms of financial management, especially in terms of reporting business finance. Financial reporting is very useful as a source of information in making business decisions in the context of the development and success of MSMEs [5].

However, the majority of MSME actors have not implemented financial reporting based on the accounting cycle, which starts from providing proof of transactions to the issuance of financial reports, and is not in line with established accounting standards. Research conducted by [6] found that the recording and preparation of financial reports prepared by MSME managers were only limited to business reports in accordance with their understanding and needs. [7] revealed that MSMEs have not been optimal in implementing an accounting recording system, because owners believe that accounting is a complicated problem. Furthermore, [4] and [8] indicate that micro business actors have prepared financial reports or bookkeeping records relatively simple. Apart from that, they also informed that MSME managers still have difficulty making financial reports as they should because they do not have competence to make financial reports [9]. This research was conducted on MSMEs that sell coffee products. Coffee is the main commodity traded throughout the world and contributing half of total exports. The world's popularity and attraction to coffee is due to its unique taste and is supported by historical, traditional, social and economic factors [10]. On the other hand, coffee is a natural source of caffeine which increase alertness to reduce fatigue [11].

Tenggo Coffee has been running since 2016, but it does not use an accounting recording system, therefore MSMEs face difficulties in making various decisions, because the available financial information is very limited. According to an interview with the owner of Tenggo Coffee, the company does not use Financial Accounting Standards or what is known as SAK EMKM and chooses simpler bookkeeping methods such as cash inflow and cash outflow. The absence of human resources and minimal skills are the biggest difficulties in producing financial reports. Meanwhile, accurate financial reports prepared in line with applicable accounting standards can help businesses develop both quantitatively and qualitatively.

2. MATERIAL AND METHODS

2.1. Micro, Small and Medium Enterprises (MSMEs)

Law no. 20 of 2008 article 1 states that MSMEs are productive and independent economic businesses, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled or become part of them, either directly or indirectly. Any economic activity carried out by a person or group that is not owned, controlled, or part of a company, whether small or large in terms of net worth or annual sales, is an indirect example of a medium-sized business. Profit margins are very small due to intense competition; bookkeeping does not meet standards, and human resources are inexperienced. As a result of insufficient economies of scale, low costs, so that sustainable are unlikely. Marketing skill, negotiation and market opportunity are very lacking and administrative management is poor, so that access to capital market funding is limited.

2.2. Financial Reports Compliant with SAK EMKM.

SAK EMKM (2016: 3) states that the purpose of financial reporting provides access for the users about the information they need to make economic decisions about an entity. Creditors and investors are two examples of users who provide resources to an entity. Financial reports show management's responsibility for the funds allocated to its projects. SAK EMKM requires MSME actors to submit financial reports detailing their financial performance, income and business expenses.

When compared to SAK ETAP, SAK EMKM is simpler because it focuses on transactions that are more commonly processed by EMKM. Assets and liabilities are recorded based on purchase price. The Financial Accounting Standards Board (DSAK) approved that SAK EMKM issued by the Indonesian

Accountants Association on May 18 2016, to be used effectively on January 1 2018 for use in preparing financial reports.

2.3. Financial Position of SAK EMKM

The financial position of an entity summarizes the assets, liabilities, and equity of a business as of a specific date. An asset is a resource within a company's control that can be used to generate future profits. Liabilities are the entity's current responsibilities as a result of previous events, the settlement of which will result in a flow of resources that impacts the company's economic profitability. The difference between assets and liabilities is called equity.

2.4 Financial Performance of SAK EMKM

The income statement describes the entity's financial performance in detail regarding income and expenses for the reporting period. During the reporting period, income can take the form of cash inflows, equity growth unrelated to shareholder investments, depreciation of assets or reduction of debt. Cash outlays, decreases in assets, and increases in debt, and decreases in equity that are not a consequence of distributions to investors qualify as expenses for a particular accounting period

2.5 Presentation of SAK EMKM Financial Reports

Financial reports from public entities must be presented transparently and fairly. Users can utilize data in their decision-making process. The information produced high level of accuracy and is free from bias, and the information is provided as it should be. Data from financial reports can be compared periodically to reveal changes in the entity's financial condition and performance. This data is included in the company's financial reports. Users have no difficulty understanding the data offered. Users are assumed to have skills and are willing to study carefully.

Type of the research is field research. Field research is essentially a method for discovering specifics and realities that occur in society. The nature of the research is descriptive qualitative, namely research that describes situations or events systematically, factually and accurately. The research was directed at examining the reality about Tenggo Coffee. Data sources are primary data obtained from observations and interviews with the owner of Tenggo Coffee, Mr. Mustafa, regarding problems in presenting financial reports and secondary data in the form of financial records at Tenggo Coffee.

3. RESULT AND DISCUSSION

Tenggo Coffee was founded in 2016 which operates in the field of coffee-based drinks. Tanggo Coffee is open every day to serve customer orders. The products offered are cold and hot coffee drinks with interesting product variants such as espresso, sanger, moccacino and cappuccino. The strategic location is in the middle of the city and also around the campus so that it is easy to reach. Apart from that, Tanggo Coffee provides a room for meetings.

3.1 Organizational Structure of Tenggo Coffee

The organizational structure of Tenggo Coffe is as follows:

Business name	: Tenggo Coffee
Address	: East Batuphat, Kec. Muara Satu, Kab. North Aceh
Owner	: Mr Mustafa
Type of Business	: Micro business, trade sector with a coffee shop type

Tanggo Coffee consists of the following team:

- Owner: responsible for the business, making decisions, ensuring that all activities run smoothly. The owner is responsible for funding.
- Finance Department: Responsible for all financial matters, both cash inflow and cash outflow. The owner is also the holder of the financial share.
- Marketing Department: Responsible for developing marketing strategies to develop the business, organizing marketing activities, carrying out promotions, ensuring good relations between the company

and consumers. Owners and employees are also marketing department holders. By collaborating between owners and employees, it is hoped that the marketing process will be maximized.

- Employees: Responsible for making and serving all customer orders and identifying the financial activities of MSME.

Tenggo Coffee has a daily income of IDR 800 thousand and an average monthly income of IDR 24 million. Daily income can change according to the number of visitors. It recorded daily expenditure for beverage products and expenditure for employee salaries, electricity and wifi during the month of IDR 6.2 million.

Based on the interview, Mr. Mustafa explained that they had not implemented SAK EMKM (Accounting Standards, Micro, Small and Medium Ethics). They only record cash in, cash out, accounts payable. They do not record the accounting process, so their financial reports are not perfect. They assume that simply recording cash inflow and cash outflow is enough. Until now they do not have employees who understand making financial reports because they think that it is difficult to make financial reports.

Furthermore, Mr. Mustapa explained that so far they had never been involved in financial management training carried out by government agencies or other institutions. This finding shows that micro-scale MSMEs have not carried out financial recording and reporting as they should, because lack of their understanding in this field. This result is in accordance with research by Savitri and Saifuddin (2018) which explains that MSME actors do not know how to record and prepare financial reports properly and correctly. Thus, training and assistance is needed for MSME actors, especially in the field of recording and reporting business finances.

The importance of competence in preparing MSME financial reports is in accordance with research conducted by [12] which proves that human capital (business competencies and abilities) is related to business success. Research by [13] shows that the competence (including recording financial reports) of owners/managers of SMEs in the service sector in Hong Kong directly and indirectly influences the long-term performance of SMEs. [14] shows that increasing competency, especially the company's human resource capacity, is positively related to increasing organizational performance on 132 SMEs in the electronics industry in the UK. Research by [15] proves that entrepreneurial competence has an impact on the business performance of 147 SMEs in Malang, East Java.

4. CONCLUSION

The results of this research inform that Tanggo Coffee, has not carried out financial records of all types of transactions that occur. It does not make financial reports and only record cash inflow and cash outflow. This means that it has not been implemented an accounting system in managing their business according with SAK EMKM. This research is limited to Tanggo Coffee. Further research could take a wider sample from the MSME group. Further research can identify factors in implementing the financial recording and reporting system for MSMEs.

For regional governments to give attention to the development of MSMEs around Lhokseumawe and North Aceh by providing training on recording financial reports in accordance with SAK EMKM. So that MSMEs do not experience difficulties in recording their financial reports.

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