

# The Implementation of SAK EMKM on UMKM Financial Reports

(Case Study of Cibuntu Tofu UMKM, Bandung)

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**Abstract**—Industry in Indonesia is developing quite rapidly, especially home industries that support people's lives; one of which is tofu industry. In reality, this tofu industry is not yet developing due to the absence of good management and financial administration system caused by the lack of knowledge of SMEs (hereby called UMKM) about the importance of making financial reports. Accordingly, UMKM have difficulties in knowing and understanding their business financial condition. This research aims to help UMKM owners implement SAK EMKM (Financial Accounting Standard for UMKM) in preparing standardized, relevant, and reliable financial reports. The method of implementing research is a case study of Cibuntu Tofu UMKM in Warung Muncang Village, Bandung Kulon District, Bandung City. The research presentation approach is descriptive analysis. Data collection techniques for research activities are observation, interviews, and documentation. The result of this study is Cibuntu Tofu UMKM makes financial reports still manual and very simple and not in accordance with standard because business owners do not understand the financial reporting standards specifically for UMKM. The application of financial statements in accordance with SAK EMKM presents financial statements consisting of three components such as financial position reports, income statements, and notes to financial statements. This financial report can be used for accountability, reviewing the company's budget, measuring going concern companies, making business plans, knowing the financial condition and submitting additional capital to the bank. This research is also expected to provide information for MSME owners Cibuntu Tofu in implementing SAK EMKM.

**Keywords:** UMKM tofu industry, financial statement, SAK EMKM

## I. INTRODUCTION

In the 2016 census, BPS (National Bureau of Statistics) stated that West Java is a region with a number of MSEs (Micro and Small Enterprises) or UKM of more than 4.5 million business units or 17% of the total MSEs business units in Indonesia [1]. The Municipality of Bandung is one of the regions that has considerable potential for the development of small and medium industries or crafts in West Java. The City of Bandung Cooperative, UKM and Trade Industry Office said that the industrial potential in Bandung City in 2017 amounted to 10,848 business units with 89.97 percent of formal and non-

formal small industries. The beverage and food industry are the second-largest business unit, which is 14.17% after the apparel industry. One of the business centres in Bandung is the Cibuntu tofu business centre. Cibuntu tofu production centre is a home industry firstly located and started at Cibuntu region, Bandung Barat (West Bandung). Judging from its development, Cibuntu Tofu has now become an icon of Bandung City, especially in the tofu industry. Tahu Cibuntu is popular not only in Bandung but also throughout Indonesia.

South Africa is a country with 95% of the business sector being UMKM. This sector annually contributes an average of 35% to gross domestic product, and is able to reduce as much as 50% the unemployment rate in the country [2].

In general, every UMKM has constraints that make their businesses stagnant. One of the most significant obstacles that hinder their business growth is access to finance, in addition to several other obstacles such as size, age and level of company growth and company ownership. Then there are external obstacles, namely high-cost loans and the lack of consultant support [3]. To overcome these problems, it is necessary to apply good bookkeeping that is marked by recording all transactions occur and reporting so that entrepreneurs can see the results of their management and business progress.

According to Law No. 20 of 2008 concerning UMKM, micro, small and medium enterprises are productive enterprises belong to individuals and/or entities that meet the criteria of micro, small and medium businesses as regulated in this law [4]. Criteria of micro, small and medium enterprises are:

TABLE I. CRITERIA OF UMKM

| No | Description       | Criteria                   |                             |
|----|-------------------|----------------------------|-----------------------------|
|    |                   | Assets                     | Annual Sales Revenue        |
| 1. | Micro enterprise  | Max of 50 million          | Max 300 million             |
| 2. | Small enterprise  | > 50 - 500 million         | > 300 million - 2,5 billion |
| 3. | Medium enterprise | > 500 million - 10 billion | > 2,5 billion - 50 billion  |

The purpose of financial statements is to provide information on the financial position and performance of an

entity beneficial to a large number of users in making economic decisions, such as creditors and investors. The financial statements show management's responsibility for the resources entrusted to it [5].

Research Aamir dan Farooq "assessing the preparedness of small and medium sized entities in Swedia to adopt international financial standard (IFRS) for small and medium sized entities (SMEs)" research in Sweden with 11 informants, qualitative methods [6]. With the results of SMEs in Sweden not ready to implement IFRS for SMEs.

A study conducted in Zimbabwe on 100 SMEs by Maseko and Manyani brings out that SMEs do not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants [7]. Consequently, the use of accounting information to support measurement of financial performance by SMEs is ineffective. The study proposes that regulatory bodies must develop specific guidelines for SME accounting and organise accounting training programmes for entrepreneurs in small businesses. They also recommend the application of mandatory record keeping to improve accounting practices of SMEs in Zimbabwe.

Research Ezeagba "The study found that the challenges facing SMEs in preparation and presentation of financial reports are: inadequate accounting books and records, manpower, accounting system and non-running their transactions through the banking system [8]."

Research Amoako "The results reveal that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack the necessary accounting knowledge and blame the cost of hiring accounting professional [9]. Consequently, the application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient."

Mensah et al states that a significant number of enterprises in their survey kept no records pertaining to operations, finance, audited accounts, tax returns, and so on [10]. Until recently, all the micro and small enterprise could not receive credit from the banks and promotional institutions on grounds that the formal banking sector considered them a high-risk area, and hence charged them high cost for borrowed funds from the banks.

Madurapperuma et al. "The target population comprised of 100 SMEs operating retail shops, manufacturing firms and suppliers of various services in Gampaha district in Sri Lanka [11]. It was concluded that the most of the SMEs do not keep complete accounting records because lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is an inefficient use of accounting information to support financial performance measurement by SMEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently. Lack of keeping of accurate records was highly blamed on the lack of skills in this field by the owners or managers."

SAK EMKM is compiled to fulfil the reporting needs of micro, small and medium entities. The basis for measuring the elements of financial statements is historical costs. There are

three basic assumptions used in preparing the financial statements: 1. Accrual basis, where items are recognized as assets, liabilities, equity, income and expenses when they meet the definition and recognition criteria for each item. 2. Business continuity. 3. The concept of business entities, where business transactions should be completely separated from business owner transactions.

Many studies have suggested that the majority of SMEs in Indonesia have not been able to implement SAK ETAP because the standard is too complex. Therefore, DSAK IAI publishes new financial accounting standard for SMEs which is SAK EMKM effective on January 01, 2018. The new standard is intended to assist the needs in the preparation of financial statements.

Neag et al found that the standardized financial statements (IFRS and GAAP) are still too complex that cannot afford applied and hard-filled for micro and small business [12]. The results showed Recording and preparation of financial statements Warkop's UMKM Manager is only limited business reports created in accordance with understanding and the needs of each Warkop UMKM Manager [13].

The success of the implementation of SAK EMKM as a whole is a long journey that requires readiness from SMEs. For this reason, research on the understanding of SAK EMKM for MSME practitioners needs to be carried out.

A financial statement consists of:

#### *A. Financial Position Report*

It presents information about assets, liabilities, and equity at the end of the reporting period. Assets are resources controlled by entities as a result of past events and from which future economic benefits are expected to be obtained by an entity. Liabilities are current liabilities from past events, the settlement of which results in outflows from entity resources that contain the economic benefits of equity as residual rights. Equity is residual rights to the assets of the entity after deducting all liabilities.

#### *B. Income Statement*

It is an entity's financial performance for a period. It consists of income and expenses. Income is an increase in economic benefits during the reporting period in the form of cash inflows or increase in assets or decrease in liabilities that results in an increase in equity that is not caused by distribution to investors. Expenses are decreases in economic benefits during the reporting period in the form of cash outflows or decreases in assets, or the increase of liabilities that result in a decrease in equity that is not caused by distribution to investors.

#### *C. Notes to Financial Statement*

It contains a statement stating that financial statements compiled are in accordance with the SAK EMKM, an overview of accounting policies, additional information and details of certain items that explain important and material transactions which are useful for users to understand the financial statements.

**II. RESEARCH METHOD**

The research method used is a case study conducted at Cibuntu Tofu UMKM with a descriptive qualitative approach. The one-case method is research involving one case unit of a company, an area, or empirical research. The type of research conducted is descriptive analysis research.

This research consists of one variable, namely the economic community of Cibuntu Tofu UMKM. Data collection techniques used in the research are:

- Observation that is a research technique uses the sight senses of an object/research variable.
- Depth interview is a data collection technique carried out by conducting interviews with related parties on object/research variable.
- The research location for Cibuntu Tofu UMKM empowerment is in Bandung. Number of empowered people were 31.

**III. RESULTS AND DISCUSSION**

Profile of Cibuntu Tofu UMKM, Kelurahan Warung Muncang. Based on the analysis of the situation above, it turns out that entrepreneurs in Cibuntu Bandung have a very good chance of developing and should maintain the icon of industry in Bandung. Therefore, it must be supported by various businesses that can help these entrepreneurs to develop. There are many entrepreneurs who have not done proper bookkeeping for their business. Based on its history, many entrepreneurs run their businesses self-taught and hereditary so that they pay less attention to the professional business management. Majority of entrepreneurs' educational background in this industry is high school and junior high school graduates, and even some are elementary school graduates. Very few of them are bachelor degree, and even if there are any, they are the second generation of tofu entrepreneurs. Higher education will increase the ability to absorb (including the ability to acquire, assimilate, transform, and exploit) new knowledge [14].

Basically, a significant problem of UMKM is financial management and the efforts of Cibuntu tofu UMKM to get sources of capital, especially from banks. For this reason, knowledge and understanding relating to both the accounting cycle and reporting are imperative. The management of the business being carried out, among others through good bookkeeping and reporting which shows an increase in business progress, can open opportunities for entrepreneurs to advance their businesses. Furthermore, these conditions facilitate the entrepreneurs to obtain financial assistance from banks or other financial institutions to enhance their businesses.

The results showed that of the 31 UMKM being studied, there were 9 entrepreneurs (29%) already had financial reports but they were still recorded in simple bookkeeping, and the remaining 22 (71%) had not made financial reports. Entrepreneurs who have met the basic assumptions of accounting and measurement principles were only 3 (9.68%), while the others 28 (90.32%) have not fulfilled them yet. Entrepreneurs failed to meet the concept of economic entities since there was no separation of business transactions and

personal transactions which make it difficult to determine how much profit gained from the business. Therefore, it is necessary to write UMKM financial reports by SAK EMKM standard.

This study produces the financial statements of Cibuntu tofu UMKM in accordance with SAK EMKM standards, namely the statement of financial position, income statement, and notes to the financial statements. The following is a compilation of Financial Statements of one of the UMKM Cibuntu tofu, namely the HARC UMKM of Cibuntu tofu:

| <b>HARC UMKM of CIBUNTU TOFU</b>       |              |                    |                    |
|--|--------------|--------------------|--------------------|
| <b>FINANCIAL POSITION REPORT</b>       |              |                    |                    |
| <b>DECEMBER 31, 2017</b>               |              |                    |                    |
| <b>ASSETS</b>                          | <b>Notes</b> | <b>2017</b>        | <b>2016</b>        |
| Cash                                   | 3            | 37.060.000         | 14.853.500         |
| Account Receivable                     | 4            | 12.546.500         | 8.593.000          |
| Supplies                               |              | 15.510.000         | 5.600.000          |
| Equipment                              |              | 37.330.000         | 37.330.000         |
| Accm Depre of equipment                |              | (27.997.500)       | (18.665.000)       |
| Car                                    |              | 103.000.000        | 103.000.000        |
| Accm Depreciation of car               |              | (38.625.000)       | (25.750.000)       |
| <b>Total Asset</b>                     |              | <b>138.824.000</b> | <b>124.961.500</b> |
| <b>LIABILITIES</b>                     |              |                    |                    |
| Account payable                        |              | 0                  | 0                  |
| <b>Total of Liabilities</b>            |              | <b>0</b>           | <b>0</b>           |
| <b>EQUITY</b>                          |              |                    |                    |
| Capital                                |              | 50.000.000         | 50.000.000         |
| Retained earning                       | 5            | 88.824.000         | 74.961.500         |
| <b>Total of Equity</b>                 |              | <b>138.824.000</b> | <b>124.961.500</b> |
| <b>Total of Liabilities and Equity</b> |              | <b>138.824.000</b> | <b>124.961.500</b> |

Fig. 1. Financial position report.

| <b>HARC UMKM of CIBUNTU TOFU</b>            |              |                    |                    |
|---|--------------|--------------------|--------------------|
| <b>INCOME STATEMENT</b>                     |              |                    |                    |
| <b>For The Year Ended December 31, 2017</b> |              |                    |                    |
|   | <b>Notes</b> | <b>2017</b>        | <b>2016</b>        |
| <b>Revenues</b>                             |              |                    |                    |
| Operating revenues                          |              | 604.800.000        | 562.320.000        |
| <b>Total Revenues</b>                       |              | <b>604.800.000</b> | <b>562.320.000</b> |
| <b>Cost of good sold</b>                    |              | <b>413.360.000</b> | <b>374.831.000</b> |
| <b>Gross Profit</b>                         |              | <b>191.440.000</b> | <b>187.489.000</b> |
| <b>Operational Expense :</b>                |              |                    |                    |
| Wages&Salariesexp                           |              | 54.000.000         | 42.000.000         |
| Equipmt depreciation exp                    |              | 9.332.500          | 9.332.500          |
| Car depreciation exp                        |              | 12.875.000         | 12.875.000         |
| Utility expenses                            |              | 19.370.000         | 18.320.000         |
| <b>Total of expenses</b>                    |              | <b>95.577.500</b>  | <b>82.527.500</b>  |
| Other revenue                               | 6            | 105.000.000        | 90.000.000         |
| <b>Profit (Loss) before income tax</b>      |              | <b>200.862.500</b> | <b>194.961.500</b> |

Fig. 2. Income statement.

**TABLE II. NOTE TO FINANCIAL STATEMENT OF UMKM CIBUNTU TOFU**

| UMKM CIBUNTU TOFU<br>NOTE TO FINANCIAL STATEMENT<br>DECEMBER 31, 2017 |   |             |             |
|---|---|-------------|-------------|
| 1.  | <b>GENERAL</b><br>The entity was established in Bandung based on deed Number xx dated 1 January 20xx made before a Notary, SH, notary in Jakarta and received approval from the Minister of Law and Human Rights No. xx on January 31, 20xx. Entities engaged in the business sector of tofu. The entity fulfills the criteria as a micro, small and medium entity according to Law Number 20 of 2008. The entity is domiciled at Jalan Cibuntu, Bandung. |             |             |
| 2.  | <b>SUMMARY OF IMPORTANT ACCOUNTING POLICIES</b>   |             |             |
| a.  | Statement of Compliance<br>The financial statements are compiled using Micro, Small and Medium Entity Financial Accounting Standards.   |             |             |
| b.  | Basic Compilation<br>The basis for preparing financial statements is historical costs and using the accrual basis assumptions. The presentation currency used in the compilation of financial statements is Indonesian Rupiah.  |             |             |
| c.  | Accounts Receivable<br>Accounts receivables are stated at the amount of the invoice.  |             |             |
| d.  | Supplies<br>Raw material inventory cost includes the cost of purchase and transportation costs on purchase. Conversion costs include direct labor costs and overhead. Fixed overhead is still allocated to conversion costs based on normal production capacity. Variable overhead is allocated to production units based on actual use of production facilities. The entity uses the average inventory cost formula.                                     |             |             |
| e.  | Fixed Asset<br>Fixed assets are recorded at cost of acquisition if the assets are legally owned by the entity. Fixed assets are depreciated using the straight-line method with no residual values.   |             |             |
| f.  | Revenue and Expense Recognition<br>Sales revenue is recognized when bills are issued or sent to customers. Expenses are recognized when incurred.   |             |             |
| g.  | Income Tax<br>Income tax follows the taxation provisions in force in Indonesia.   |             |             |
| 3.  | <b>CASH</b>   |             |             |
|   |   | 2017        | 2016        |
| a.  | Cash  | 1.000.000   | 1.000.000   |
| b.  | Bank Mandiri  | 36.060.000  | 13.853.500  |
| 4.  | <b>ACCOUNT RECEIVABLE</b>   |             |             |
|   |   | 2017        | 2016        |
| a.  | Store Mr.Sandi  | 3.641.000   | 1.860.000   |
| b.  | Store Mr.Umar   | 2.953.000   | 1.370.000   |
| c.  | Store Mr. Ali   | 2.927.000   | 2.700.000   |
| d.  | Store Mr.Nono   | 3.025.500   | 2.663.000   |
| 5.  | <b>RETAINED EARNING</b><br>Retained earnings represent the accumulation of revenue and expense differences, after deducting from the owner's distribution.  |             |             |
|   |   | 2017        | 2016        |
| a.  | RE beginning  | 74.961.500  | 0           |
| b.  | Net Income  | 200.862.500 | 194.961.500 |
| c.  | Prive   | 187.000.000 | 120.000.000 |
| 6.  | <b>OTHER INCOME</b>   |             |             |
|   |   | 2017        | 2016        |
| a.  | tofu pulp sale  | 105.000.000 | 90.000.000  |

UMKM who understand how to prepare MSME financial reports according to SAK EMKM standards were 27.73 % and did not understand 72.73%. UMKM who understand bookkeeping in managing finances there are only 25.86% and 74.14% who do not understand. UMKM who understand how to calculate cost of goods sold were 8.77%, and 91.23% who did not understand. UMKM who understand what is meant by Assets, Liabilities and Equity there are only 15.52% and 84.48% who do not understand. UMKM who understand what is meant by income and expenses there are only 15.79% and 84.22% who do not understand. UMKM who understand the basic assumptions of accounting and measurement principles were only 10.91% and 89.09% who did not understand. UMKM who understand about the accounting cycle were only 10.71% and 89.29% who did not understand.

Finally, it can be said that generally Cibuntu tofu MSMEs doesn't prepared financial reports based on guidelines / standards, only simple book keeping. They do not understand the calculation of cost of goods sold, asset accounts, liabilities,

equity, income and expense. They do not yet understand the basic assumptions of accounting and the accounting cycle. IAI prepares SAK EMKM simpler than SAK ETAP and it is specific to MSMEs. It is hoped that this standard can help MSMEs in preparing financial reports that can be used for accountability, reviewing the company's budget, measuring going concern companies, making business plans, knowing the financial condition and submitting additional capital to the bank. So SAK EMKM socialization is needed to Cibuntu tofu MSMEs.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

##### A. Conclusions

The following are conclusions from the above studies and discussions:

- Financial statement of UMKM Cibuntu Tofu is compiled by the researchers based on SAK EMKM.
- Financial Position Report for the period of December 31, 2017, shows that total assets of the company are 138,824,000 Rupiah; retained earnings are 88,824,000 Rupiah; and capital is 50,000,000 Rupiah.
- The company's net profit which shows the company's performance in 2017 amounted to 200.862.500 Rupiah or 33.21% of total turnover.
- Notes to the financial statements present a general description of the company, statements that the compilation of the report uses SAK EMKM as the basis of compilation, as well as the accounting policies applied in the financial instruments presented in the financial statements of the UMKM Cibuntu Tofu.
- There are still many entrepreneurs who have not yet fulfilled the concept of economic entities because they have not yet separated business transactions from personal transactions.

##### B. Recommendations

Recommendation from this research is the need for an accounting training activity that involves the collaboration of several parties, including academics, students and local government so that this research can provide a positive impact for the UMKM Cibuntu Tofu.

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