



Reconstruction of Presentation of Financial Statements of Village Credit Institutions (LPD): The ISAK 35 Approach and The Specific Characteristics of LPD

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Abstract— Village Credit Institutions (LPD) are required to prepare financial reports that refer to the framework for preparing financial reports. LPD with its specific characteristics, as well as referring to the explanation of LPD equity, which in terms of financial accounting standards conforms to the characteristics of the non-profit-based interpretation of financial accounting standards 35 (ISAK 35), non-profit means that the LPD is not profit-oriented and does not mean that the LPD does not generate profits. This study aimed to analyze the presentation of the LPD's financial statements using the ISAK 35 approach. This study used a qualitative descriptive method, and the research data was obtained using interviews with informants related to the LPD. Data analysis was performed with an interactive analysis model. The results of the study state that there are two fundamental things in the application of ISAK 35: the way the LPD obtains the resources needed to carry out its various operational activities and the presentation of LPD capital. The resource approach with restrictions and without restrictions, the classification more closely refers to the existence of the LPD area itself. LPD capital is presented differently from business entities; LPD has a social responsibility to Pakraman Village. The resources needed to carry out various LPD operating activities are presented in the statement of comprehensive income. LPD capital is presented in the statement of financial position and report on changes in net assets.

Keywords: Village Credit Institution (LPD), Nonprofit, ISAK 35

I. INTRODUCTION

Village credit institutions, LPD, are village-owned financial institutions located in a village in the province of Bali. Governor Regulation no. 44 of 2017 states that the LPD aims to maintain the economic resilience of village residents through regular, targeted savings and productive capital distribution; eradicating debt bondage, dark pawnshops, and other equivalents; encourage equity and opportunity to do business for every customary village resident (*krama desa adat*); and increasing purchasing power, expediting payment traffic and circulation of money. LPDs, in their operations, are different from microfinance institutions, which are specifically established to provide business development services and community empowerment, either through loans or financing in micro-scale businesses to members and the community, managing deposits, as well as providing business development consulting services that are not solely for profit. These refer to article 39 of the law of the Republic of Indonesia number 1 of 2013 concerning microfinance institutions. [1] stated that Village credit institutions are to be recognized based on customary law and are not subject to law number 1 of 2013. LPDs have special characteristics protected in Law No. 1 of 2013, so it is more relevant to use the interpretation of non-profit financial accounting standards (ISAK35). LPDs, in their operational activities, are not subject to indonesia tax regulations, so the existence of LPDs is not as tax subjects. The LPD's business in supporting its operations is to receive money deposits in the form of savings and time deposits with interest rates by the krama's agreement in the customary village meeting (*Paruman krama desa adat*) and the applicable provisions; provide loans for economic activities in economic sectors that are deemed appropriate based on analysis and charge fees according to the agreement *lungs* with the village and applicable provisions such as LPD business risk management; and investing in village-owned enterprises as the owner of the LPD. LPD, in its development, was initially established from 1984 until 2022, numbered 1,437 throughout the Province of Bali. Philosophically, establishing the LPD was not for profit; when establishing the LPD was to encourage the rural economy for farmers and small entrepreneurs so that custom-based social life could still be carried out, the LPD needed to be more profit-oriented [2]. Writing [3] states that the LPD with its specific characteristics and refers to the explanation of LPD equity, which is a financial accounting standard by the characteristics of the non-profit-based interpretation of financial accounting standards 35 (ISAK 35); Non-profit means that the LPD is not profit-oriented and does not mean that LPDs do not generate profits. Research [4] stated that business continuity during the COVID-19 pandemic, especially in the financial, operational, and other aspects, and with the Z-Score testing, showed that COVID-19 greatly impacted business operations, including the LPD. The blow of the COVID-19 storm had an extraordinary impact on the development of his business; several LPDs were unable to survive, and not a few LPDs that were able to survive were even able to contribute to the villagers (*desa adat*) during COVID-19. Research [5] found three roles for LPD members during the Covid-19 pandemic, namely productive roles: financial solutions for members based on family principles, the role of macro social responsibility: a source of funding for the collective needs of members, and the role of micro social responsibility: a source of funding for the needs of individual members.

LPD financial reports refer to the Governor of Bali regulation number 44 of 2017, differentiating reports on loan activities and developments, profit (loss) calculation reports, and balance reports. Loan activity and development reports describe LPD activities in the month in question, including potential/resources, development of loans, inter-bank assets, community savings and deposits, and inter-bank liabilities, as well as details. The profit (loss) report contains information regarding the amount of income by LPD income items, costs/expenditures by expense items, and the calculation of profit (loss) up to the current month's period. The balance sheet contains information on total assets according to asset accounts and total liabilities according to liability items in the reporting month period. The LPD's financial accounting and reporting framework provides *tri hita karana* (local genius) activity-based financial information. The financial reporting of LPDs whose current operations are closer to banking practices (BPR) is inconsistent with the original purpose of establishing the LPD itself, but that does not mean that LPDs are the same as banks [6]. LPDs are very different from BPRs, especially from the LPD equity structure, which comes from customary village capital, including customary village assets, both tangible and intangible assets (*taksu*). The Village Credit Institution Empowerment Institution (LPPLD), as an LPD empowerment institution, stated that it did not provide specific provisions regarding the SAK used by the LPD. LPD in the presentation of financial statements most closely refers to SAK ETAP. The historical purpose of establishing an LPD is devoted more to *Tri Hita Karana* (local genius) activities in each customary village, including the relationship between humans and God, humans and humans, and humans and the environment. LPD was established to increase the role of the customary village in social, cultural, civilized, and religious life. Cultured social life in traditional religious communities is closely related to beliefs, social well-being, and values. Increasing confidence, social well-being, and the value of a society is a characteristic of an entity that is not oriented to profit [7;8]. Based on the phenomenon of LPD financial reporting, this study analyzes the use of ISAK 35 to present LPD financial reports.

II. RESEARCH METHODS

This study used a qualitative descriptive method with data collection techniques in the form of unstructured interviews with competent parties from the LPD, namely Mrs. Kadek from the auditors, Mr. Made from academics, Mr. Wayan from the village credit institution (LPD) and Mr. Nyoman from the empowerment credit institution, Village (LPLPD). The data analysis technique in this study was carried out using an interactive analysis model [9]. The interactive analysis model includes the stages of collecting data or research facts, the stages of data reduction in the form of analysis that sharpens, classifies, directs, removes unnecessary, and organizes data in such a way that conclusions can be drawn, stages of presentation of data for the selection or specification process on the focus of research problems and the final stage of concluding.

III. RESULTS AND DISCUSSION

LPD, as a financial business entity, must implement an administrative system capable of producing auditable and transparent financial reports. All transactions are recorded by type of transaction, then transactions are grouped and presented in the form of financial reports and all documents are archived in an orderly manner. Administration in the LPD adopts a financial year that starts on January 1 and ends on December 31. Article 30 Bali gubernatorial Regulation No. 44 of 2017 states that LPD's management (*prajuru*) must submit a report to the village internal control unit (*panureksa*), the Governors, Regents/Mayors through empowering village credit institutions (LPLPD). The types of reports submitted by LPD include monthly reports, quarterly reports, and annual reports. Monthly reports include loan activity and progress reports, trial balances, balance sheets, and profit (loss) reports [10]. The quarterly report consists of an LPD health assessment report and an LPD risk rating assessment report. The annual report consists of the LPD's annual RK-RAPB report, management (*prajuru*) accountability report year-end, and internal control unit (*panureksa*) end-of-year reports. The preparation of LPD financial reports, namely balance sheets and profit (loss) reports by the guidelines for bookkeeping administration and reports of village credit institutions, does not provide specific provisions regarding SAK used by LPDs such as SAK ETAP [11;12]. Research [2] states that LPDs have special characteristics that are protected in Law No. 1 of 2013 concerning microfinance institutions, so it is more relevant to use interpretations of financial accounting standards or non-profit ISAK 35, which is a substitute for SAK 45 regarding Financial Reporting of Non-profit Entities. However, all acknowledgments, measurements, assessments, and their presentation still refer to SAK ETAP.

One of the objectives of the LPD is to maintain the economic sustainability of a customary village through regular, targeted savings and productive capital distribution, eradicating debt bondage, illicit mortgages, and other equivalents. LPD's line of business is accepting money deposits in the form of savings and time deposits with interest rates according to the agreement set in customary villagers' meetings (*paruman*) and applicable regulations, providing loans for economic activities in economic sectors that are deemed appropriate based on analysis and charge fees according to the agreement with the village and applicable provisions such as LPD business risk management, and investing in village-owned enterprises as the owner of the LPD. LPD operations refer more to customary village regulations (*awig-awig*) and the applicable provisions, namely the Bali Governor Regulation No. 44 of 2017. Based on the results of an interview with Mr. Wayan as an LPD practitioner, in this case, the chairman of the LPD said that the LPD's operations refer to the regulations of the Governor of Bali and comply with the village's regulations set by the villagers. The presentation of the LPD financial reports refers to the LPD bookkeeping administration guidelines issued by the LPD and the regulations of the Governor of Bali related to the LPD. Mr. Nyoman from the LPLPD stated that the LPD's financial reporting framework, recognition, measurement, and presentation explicitly did not refer to financial accounting standards

(SAK), either SAK EMKM or ETAP. There is no specific reference regarding the financial reporting framework for LPDs whose main activities are banking-like but not purely banking, as LPDs are exempt from the Law on microfinance institutions. In the future, LPD will always make improvements related to regulations or procedures for financial reporting, considering the existence of LPDs throughout Bali with all existing limitations, such as human resources. Mr. Made, an academician, stated that the LPD, in its operations, collects funds and distributes these funds back to the customary village, and if the distribution is outside the customary village LPD, then there must be cooperation and refer to the Governor's regulations or following the customary village's regulation (*awig-awig*). The presentation of LPD financial reports refers to the guidelines for bookkeeping administration and reports of village credit institutions. There are special characteristics of LPD, such as LPD capital; the presentation is by the characteristics of the non-profit-based interpretation of financial accounting standards 35 (ISAK 35). Mrs. Kadek, as an auditor, stated that the financial statements presented by the LPD in terms of recognition, measurement, and evaluation more closely refer to SAK ETAP. Referring to the history of the formation of LPDs and by Law No. 1 of 2013, LPDs should refer to the relevant financial accounting standards. The relevant ISAK 35 is used as a basis of reference in presenting the financial statements of LPDs with the special characteristics of LPDs. [2], stated the views of the informants used; because the LPD is not a tax subject, its financial statements must follow non-profit-oriented entities. This view suggests that LPDs currently using SAK ETAP should use ISAK 35 to follow the special characteristics of LPD.

ISAK 35 interprets the arrangements for presenting financial statements for entities whose activities are non-profit-oriented, which means that the entity is not profit-oriented and does not mean it does not generate profits [13]. Presentation of financial statements under ISAK 35 consists of a statement of financial position, a statement of comprehensive income, a statement of changes in net assets, a statement of cash flows, and notes to the financial statements. The characteristics of non-profit-oriented entities are different from profit-oriented business entities. The difference lies in how the entity obtains the resources to carry out its various operating activities. Non-profit-oriented entities acquire resources from resource providers who do not expect repayment or economic benefits in proportion to the available resources. An entity shall conduct its assessment to determine whether it is a non-profit-oriented entity, regardless of the entity's legal form. Non-profit organizations determine the person in charge, leader, or administrator who receives the mandate from *stakeholders*. Several factors that an entity can consider are whether the resources of a non-profit-oriented entity come from resource providers who do not expect returns or economic benefits that are proportional to the number of resources provided, produce goods and services without the aim of cultivating profits, and if the entity is non-profit oriented generate profits, then the amount is not distributed to the founders or owners of the non-profit-oriented entity, there is no ownership as is generally the case with profit-oriented entities, in the sense that ownership in non-profit-oriented entities cannot be sold, transferred or redeemed or the ownership does not reflect the proportion of the distribution of resources of non-profit oriented entities upon liquidation or dissolution of non-profit oriented entities. [14] stated that many parties, both profit-oriented and non-profit entities, increasingly recognize the role of accounting in an entity's financial management. The most basic role of accounting is its ability to present various information and answers related to all forms of financial activity. The relevance of the application of ISAK 35 in the presentation of LPD financial reports under the guidelines for bookkeeping administration and reports of village credit institutions (LPD) prepared by the LPLPD in 2022 can be analyzed from the resources needed in LPD operations and the presentation of capital in the LPD. The ISAK 35 approach in presenting LPD financial reports can be described in two main points, as shown in Table 1.

TABLE I. TABLE 1. ISAK 35 APPROACH IN LPD FINANCIAL REPORTS

Information	LPD Bookkeeping Administration Guidelines	ISAK 35 & Specific Characteristics of LPD	Presentation of Financial Statements
Resources for LPD Operations Activities	There Is No Income Classification	Income Classification: Without Restriction and With Restriction	Comprehensive Income Statement, Notes to Financial Statements
Equity	Paid-in capital: Authorized capital	LPD Specific Characteristics and Presentation of Net Assets Without Restrictions and With Restrictions	Statement of Financial Position, Statement of Changes in Net Assets, Statement of Cash Flows

The application of ISAK 35 lies in obtaining the resources needed to carry out various operational activities. The business field of LPD following Regional Regulation No. 3 of 2017 includes receiving/raising funds from a customary villager in the form of savings (*dhana sepelan*) and deposits (*dhana sesepelan*); giving loans to its villagers or other villagers, the LPD can provide loans other villagers on the condition that there is a cooperation between villages which is further regulated by a Governor Regulation [15]. Giving priority to its villagers.

LPD capital consists of paid-in/authorized capital, general reserves, last year's profit (loss), and the current year's profit (loss). Paid-in capital/authorized capital is the capital participation of the Level I Regional Government in the LPD as a provision for

APBD funds, the participation of the Level II Regional Government, if any, and the deposit of capital from the villagers. Authorized/paid-in capital from last year's loss/profit that has been allocated as additional capital and community self-help capital. Profit (loss) for the year: represents the difference between income and expenses for the current period. If the LPD makes a profit, this profit is distributed to reserves based on a certain percentage and after obtaining approval from the Regent/Mayor. Last year's profit (loss) that has not been distributed is the accumulated profit/loss from the previous year. One of the special characteristics of the LPD is reflected in the equity of the LPD that there is no ownership like in business entities, in the sense that ownership in non-profit entities cannot be sold, transferred, or redeemed, or the ownership does not reflect the proportion of the distribution of the entity's resources at the time of liquidation. Bali Provincial Regulation No. 3 of 2017 concerning LPD article 23, paragraph 1 explains that one of the divisions of LPD net profits at the end of the accounting year is for development funds and village community empowerment 20% and social funds 5%. The article indicates that the LPD in Bali has a social responsibility to the community. Disclosure of social responsibility at the LPD in Bali shows how much the contribution made by the LPD to the traditional village community is under the Hinduism teachings *sei.e.*, *Tri Hita Karana*, which consists of *parhyangan*, *pawongan*, dan *palemahan*. *Tri Hita Karana* (THK) is a philosophy of the Balinese Hinduism community. The THK philosophy emphasizes that in the process of life towards a prosperous life, humans are emphasized to maintain harmony or harmony between humans and their creator, namely God Almighty (*parhyangan*), humans with nature/environment (*pawongan*), and humans with each other (*palemahan*) as a unified whole [16;17;18]. Presentation of LPD financial statements using the ISAK 35 approach consists of a statement of financial position, a statement of comprehensive income, a report on changes in net assets, a statement of cash flows, and notes to the financial statements. The statement of financial position provides information on the assets, liabilities, and net assets of LPDs; the comprehensive income statement displays data on the results of LPD operations during a certain period; the report on changes in net assets displays data on other comprehensive income as well as the total net assets of LPDs, the cash flow statement displays data related to activities LPD operations, investments and financing as well as the notes to the financial statements provide additional information contained in the financial statements.

IV. CONCLUSION

ISAK 35, which regulates the presentation of the financial statements of non-profit-oriented entities, can be applied to the presentation of the financial statements of LPDs, especially concerning the presentation of the resources of LPDs' operating activities and the capital of LPDs. LPD operating activity resources are presented in the statement of comprehensive income, and LPD capital is presented in the statement of financial position and statement of changes in net assets. The resource approach with and without restrictions in the LPD's comprehensive income report is closer to recognizing the existence of the area (*the story*) of the LPD itself. In LPD equity, there is no ownership like in business entities, in the sense that ownership in non-profit entities cannot be sold, and there is an allocation of 20% of profits for the development and empowerment of rural communities and social funds of 5%. This ownership rule indicates that the LPD in Bali, with its specificity, has a social responsibility towards its villagers.

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