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The Importance Of Implementing Financial Reporting Based On Sak Emkm In Improving Msmes Performance

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ARTICLE INFO

Keywords:

Financial Report,
SAK EMKM,
MSMEs
Performance

Article History:

Received: 30/08/2024

Accepted: 20/09/2024

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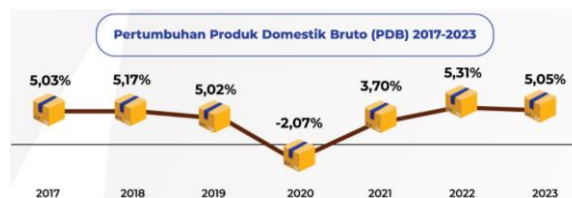
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ABSTRACT

One way to measure micro-small-medium enterprises' (MSMEs) performance is by analyzing how they manage their financial reporting, that comply with the accounting standard for micro, small, medium entity (MSMEs), i.e. the Standar Akuntansi Keuangan Entitas Mikro Kecil Menengah (SAK EMKM). The standard performance was published in January 1, 2018. MSMEs in Madiun city area are one of MSME's should implement this SAK. This research attempts to find the relationship between MSEM's financial management based on SAK EMKM and MSEM's performance. This study based on observation, survey, interview, and questionnaire. The questionnaire were distributed of 100 MSMEs owners in the City of Madiun, East Java, Indonesia with simple random sampling technique. The analysis method use descriptive analysis and simple linier regresion. The results show that MSMEs owners believe that adherence to SAK-EMKM is very important for their business conducts. The analysis also shows that there is a significant effect of reporting and performance.

INTRODUCTION

In the fourth quarter 2023, Indonesia's economy grew 0.26% less than that of the growth in 2022. See Figure 1, for Indonesia's GDP growth from 2017 to 2023.



Source: Kadin Indonesia (2024a)

Figure 1 Indonesia's GDP Growth 2017-2023

The graph shows that Indonesia's economy experienced growth after recession in 2020. The return of the consumptions and the growth of MSMEs are one of the major factors associated with the GDP growth. The slower growth in the fourth quarter can be associated to the drop in fourth quarter GDP. Indonesia's MSMEs account for 61% of GDP and creates 97% employments in Indonesia (Kadin Indonesia, 2024b). The larger share of the economy, compare to the large enterprises, can become important instruments in increasing GDP and reducing unemployment. Government polices aim at

p-ISSN: 2528-6145, e-ISSN: 2541-3198 Accredited Third Grade by Ministry of Research, Technology and Higher Education of The Republic of Indonesia, Decree No: 148/E/KPT/2020

Cite this as: Wildaniyati, A., Rohman, F., & Suharni, S. The Importance Of Implementing Financial Reporting Based On Sak Emkm In Improving Msmes Performance. *Jurnal AKSI (Akuntansi Dan Sistem Informasi)*, 9(2). <https://doi.org/10.32486/aksi.v9i2.705>

increasing the number and the quality of the MSMEs in Indonesia. MSME's operators also play important role in the success of their business so that can become competitive globally. Those efforts include improvement in the ability in entering into digital era in the global market and improving their financial management aspects of their business.

A good MSMEs' performance is associated the healthy management of their financial aspect of their business. This becomes important basis for business decision making especially in their future growth. Unfortunately, MSMEs in Indonesia are lack of understanding and conduct of a good financial management. The research of Anggraeni et al (2021), Mattoasi (2023), Maulana et al. (2022), Sulistyowati (2017), found, in Madiun, there has been lack of understanding and practice of healthy financial management practices. Government and academic institution can provide extensions in learning the skill in financial management practices, providing training and mentoring MSMEs entrepreneurs. Such Bakri Katti & Mutmainah (2020), dan Mattoasi (2023) conducted such training and mentoring to MSMEs in Madiun. So it can be increase quality of financial management of MSMEs industry and more developed.

The accounting standard using SAK-EMKM is simple and easy to implement. According to Indonesia Accounting Association (AIA), it is a stand-alone accounting standard that can be implemented without significant public accountability as regulated in Undang-Undang No 20, 2008 (Ikatan Akuntan Indonesia (IAI), 2018). This regulation was amended in January 1, 2018. By implementing this SAK-EMKM, MSMEs are qualified to apply for credit, as a form of an accountability to the creditor. This implementation also indicates that the owners able to separate between personal and business finance as a measure of healthy financial management (Yuliawati & Yudiantara, 2022). The SAK-EMKM stipulates that financial statements must include (1) the financial position at the end of period, (2) The Profit/Loss Statement, and (3) The notes of financial statement.

The SMEs or UMKM in Madiun operate industry including food, drink, apparel, etc. Unfortunately, not all even recognize the SAK-EMKN. However, after further study, we learned that the financial reporting of some of the businesses already implement reporting that meet the standard SAK-EMKM. When the businesses implement financial standard, it open up capital funding opportunity, and in turn it will increase their business performances. Therefore, this study attempt to find out the effect of financial management implementation according to SAK-EMKN and their performances. This research on the implementation of SAK EMKM was the first to be carried out in Madiun City. So it's novelty in this research considering that Madiun city MSMEs are well maintained and cared for by the city government.

MATERIALS AND RESEARCH METHODS

This research tries to descrie the implementation of SAK-EMKN in their financial reporting in the City of Madiun, and how such implementation affects their performance. The data was collected using observation, survey, interview, and questioner. In the city of Madiun, there are 23,672 units that are spread into three different districts: Mangunharjo, Kartoharjo, and Taman. See Table 1 below:

Table 1
The Number of MSMEs in The City of Madiun

| No | Kecamatan | Sum MSMEs |
|--------------|------------|---------------|
| 1 | Manguharjo | 7.718 |
| 2 | Kartoharjo | 6.936 |
| 3 | Taman | 9.016 |
| Total | | 23.672 |

Source: Dinas Tenaga Kerja, Koperasi UKM Kota Madiun

This research is quantitative research with desciptive approach. Population in this research are MSMEs Actor in City of Madiun. Formula of Slovin used this research in order to get number of sample enough. The sample of 100 respondents were drawn using simple random sampling. The question for the data collection is closed questioner using Likert Scale of 5 scale. The data analysis includes descriptive statistic and simple regression to show the correlation of the two variables. Descriptive analysis used to explain result of respondents answer more detail. Two method used to convince answer of respondents and it's one difference from previous research.

Indicator SAK and Performance EMKM

Indicator SAK EMKM

According to Indonesia Accounting Association (Ikatan Akuntan Indonesia (IAI), 2018), indicator that financial report comply with SAK-EMKM if contains: (1) Balance sheets, (2) Profit/Loss, and (3) Notes of financial reporting. In collecting the data we created six statements and asked respondent to respond using five Likert scale: Strongly Disagree (STS), Disagree (TS), Indifferent (CS), Agree (S), Strong Agree (SS). That indicators consist of six statements with symbol P1 (Statements 1), P2 (Statements 2), P3 (Statements 3), P4 (Statements 4), P5 (Statements 5), and P6 (Statements 6).

Indicator Performance

Following Munizu (2010) MSMEs performances are measured using five indicators: sales growth, capital growth, labor growth, market growth, and profit growth. In collecting the data we created five statements and asked respondent to respond using five Likert scale: Strongly Disagree (STS), Disagree (TS), Indifferent (CS), Agree (S), Strong Agree (SS). That indicators consist of six statements with symbol Q1 (Statements 1), Q2 (Statements 2), Q3 (Statements 3), Q4 (Statements 4), Q5 (Statements 5), Q6 (Statements 6), Q7 (Statements 7), and Q8 (Statements 8).

RESULTS AND DISCUSSION

Educational Background

Based on the research results, it was found that the educational background of the respondents was as follows:

Table 2
Educational Background of MSMEs Actor

| No | Educational Level | Sum | Percentage |
|--------------|-------------------|------------|-------------|
| 1 | SD/MI | 3 | 3% |
| 2 | SMP/MTs | - | - |
| 3 | SMA/MA/SMK | 28 | 28% |
| 4 | D1/D2/D3/S1/S2/S3 | 69 | 69% |
| Total | | 100 | 100% |

Source: Primary data processed, 2024

Table 2 shows educational background of SMEs in the Citi of Madiun. More than a half of MSMEs in Madiun have higher education either college certificate or bachelor's degree. This indicates that MSMEs operators may already have skills and knowledge in preparing financial report with their high educational level. Only 3% of MSMEs actors have a primary school education background or equivalent, more than the one who own higher degree, surely in need of training and mentoring in preparing financial reporting. This means that in managing industry, MSMEs players need knowledge about financial management based on SAK EMKM. Even though their educational background is not high, this does not mean that MSMEs do not think that proper financial management is not important. Sometimes, they can hire someone to prepare financial report or training them. They think that managing industrial finances with discipline and correctly will help monitor the situation of the industry so that they will know what actions must be taken by MSMEs actor. So that the financial management of MSMEs is carried out by other people (employees of the MSMEs).

Implementation SAK EMKM

Refer to Table 3 below that shows the implementation of SAK-EMKM among the MSMEs operators/owner.

Table 3
Variabel of Implementation of SAK EMKM

| Response | Statements (%) | | | | | |
|------------|----------------|----|----|----|----|----|
| | P1 | P2 | P3 | P4 | P5 | P6 |
| STS | | | | | | |
| TS | | 1 | | | | |
| CS | 1 | 2 | 3 | 4 | 3 | 1 |
| S | 33 | 30 | 53 | 66 | 42 | 27 |
| SS | 66 | 67 | 44 | 30 | 55 | 72 |

Source: Primary data processed, 2024

As many as 72% of MSME players realize how important it is to record financial reports for the business they run. So that the financial position of the industry will immediately be known and business actors can immediately make decisions for industrial development (66%).

According to the interview results, recording financial reports is in accordance with the knowledge and abilities of business actors and in accordance with industry needs. Such as the need to know profit/loss, recording is done as a basis for making decisions on operational costs, quantities, and so on. Apart from that, according to MSMEs players, recording financial reports is a form of industrial need because there are many benefits that can be obtained from these records, including; 1) knowing the industry's profit/loss, 2) knowing the costs that have been incurred, 3) knowing the assets owned by the industry, 4) learning discipline, and 5) basic decision making.

The Performance of MSMEs

Refer to Table 4 that shows respondent responses about MSMEs performances.

Table 4
Variables MSMEs Performance in The City of Madiun

| Response | Statements (%) | | | | | | | |
|------------|----------------|----|----|----|----|----|----|----|
| | Q1 | Q2 | Q3 | Q4 | Q5 | Q6 | Q7 | Q8 |
| STS | | | | | | | | |
| TS | | | 2 | 2 | 1 | | 2 | |
| CS | 3 | 11 | 2 | 38 | 9 | | 3 | 2 |
| S | 47 | 54 | 45 | 39 | 49 | 18 | 22 | 18 |
| SS | 50 | 35 | 51 | 21 | 41 | 82 | 73 | 80 |

Source: Primary data processed, 2024

Based on Table 4 show that MSMEs performance in City of Madiun increased every month. MSMEs IN City of Madiun have increased in sales every month. This condition is shown in statement Q1 where almost all respondents answered "S" and "SS". This development is one of the impacts of managing financial reports in accordance with accounting standards. MSME actor can immediately find out their business and financial conditions by evaluating the results of these reports. It can also be seen in the Q7 statement that MSMEs experience fluctuating profits every month (73% response). Even though MSMEs experience an increase in sales every month, profits often experience ups and downs. One reason for this fluctuation is the fluctuation in the price of raw materials. In the instance that the price of raw material increases, they need to reduce production. The good example is in the production of kripik tempe where the price of soybeans were frequently fluctuate with the world market. Unfortunately, often time they already have a contract with their clients, therefore they cannot change their price even if the raw material price has increased. Even though, this means keeping their clients but unfortunately lower their profit.

There are many factors that affect the SMEs performances beside the implementation of SAK-EMKM, including local government support in developing the SMEs like providing training. Also, the demand that comes from domestic and international tourists since City of Madiun is one of tourist destination. Most importantly, the SMEs in the City of Madiun use social media and e-commerce in selling their products.

The Result of Statistic Test of Implementation of SAK EMKM With MSMEs Performance

The impact of implementing SAK EMKM on the development of MSMEs in Madiun City is not only visible in the field. But it can also be proven statistically. The following are the results of a simple linear regression test between the implementation of SAK EMKM and the development of MSMEs:

Table 5
Output of Simple Linear Regression Test
Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | |
|-------|-----------------------------|------------|---------------------------|------|-------|------|
| | B | Std. Error | Beta | | | |
| 1 | (Constant) | 9.822 | 2.879 | | 3.411 | .001 |
| | SAK EMKM | .949 | .106 | .671 | 8.950 | .000 |

a. Dependent Variable: Perkembangan

Source: Primary data processed, 2024

The regression analysis shows that coefficient regression variable SAK-EMKM is significant at alpha of 5%, meaning the implementation of accounting standard for MSMEs affects business performances and positively. If all of MSMEs implement financial report recording in accordance with EMKM SAK, then MSMEs can develop better. One form of this development is that MSMEs players can increase capital by applying for credit to banking institutions. And banking institutions can easily approve the application by looking at the financial reports recorded in accordance with SAK EMKM. Apart from that, industry can also develop its business by increasing the use of technology. The results of this research are in line with the results of Ayudhi's (2020) research.

CONCLUSIONS AND SUGGESTIONS

This research surveyed 100 MSMEs in the City of Madiun, found that the implementation of accounting standard SAK-EMKM affects MSMEs growth. By using the standard financial reporting, MSMEs gain some important benefits. One of benefit is that firm can monitor their important assets, and making decisions for future development. More importantly, the MSMEs can acquire more credit to invest in new capital and technology. Seeing this condition, MSMEs should be able to compete with other industries.

Our recommendations for the MSMEs, include active participation of MSMEs to increase their skills especially in their financial management via training and mentoring provided by academic community and government extension office. So that the educational background of MSME actors is no longer a problem in implementing SAK EMKM.

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