



INVESTIGATION TOWARD ACCOUNTING IN INDONESIAN SMEs : AN EMPHASIS TO APPROPRIATE PRACTICE FOR SMALL-MEDIUM ENTERPRISES

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Abstract

SMEs have an important role in Indonesia's economy. SMEs largely contribute to Indonesia's GDP, and also reduce the unemployment rate. Because of their importance and role for Indonesia's economy, SMEs need a serious management. They need a comprehensive accounting information to support the decisions making. Accounting information can help SMEs to operate and efficiently and to evaluate their performance. Although accounting has an important role in SMEs management, it still face many obstacles. Based on that fact, this research was done to find out the accounting application in SMEs by identifying recorded transactions, documents being used, financial statements, and obstacles that were on the way. These basis can be used to create a suitable accounting for SMEs. The research data are from 143 SMEs, which is selected using convenience sampling method. Data were gathered through interviews, observations and questionnaires. The analysis technique to solve the research problem is using descriptive qualitative analysis technique. The research results show that 61.04% of SMEs have done the transactions recording, but only 22.49% of them made financial reports. Those recorded transactions include sales transactions (65.03%), purchase transactions (59.44%), cash inflows and cash outflows (78.32%), inventories (46.15%), salary (41.96%), and other operational expenses (58.04%). Financial reports made by the managers were sales reports (56.64%), purchase reports (46.85%), income statements (11.19%), statement of owner's equity (9.09%), and balance sheet (9.79%). Furthermore, the limited education and understanding of the importance of accounting and also some assumption that accounting is only required for enterprises managed by other parties were became obstacles in the accounting application in SMEs. Therefore, a simple accounting technic is needed for SMEs. By using subsidiary books, SMEs can produce simple reports for their daily business management. By applying accounting, management of SMEs will be, hopefully, better to increase their contribution for Indonesia's economy.

Keywords: Accounting, SMEs

Preface

SMEs have an important role in Indonesia's economy. SMEs largely contribute to Indonesia's Gross Domestic Product, and also reduce the unemployment rate. From SMEs business, they contribute 59.08% of the nations GDP and also absorb 97,16% labour (Depkop.go.id, 2013). SMEs contribute to raise the living standards of society by stimulating the economic activity, the diversity of products offered to consumers and creating new jobs (Ciubotariu, 2013). Because of their importance role for Indonesia's economy, SMEs need a serious management. They need comprehensive accounting information to support the decisions making in their business management. According to





Considine, Parkes, Olesen, Speer, and Lee (2010), accounting's role is to gather data about a business's activities, provide a means for the data's storage and processing, and then convert those data into useful information. Accounting information can help SMEs to operate efficiently and to evaluate their performance. Although accounting has an important role in SMEs management, it still face many obstacles.

Several studies have concluded that SMEs use of accounting information in decision making will affect the company achievement (Suhairi, 2004; McMahan, 2001; Palmer & Palmer, 1996; Palmer & Hot, 1995; Gaskill, Auken, and Manning, 1993; Acar, 1993 ; Rocha & Khan, 1985; Peacock, 1985 in Suhairi, 2006). Amidu et al (2011) find that small medium enterprises in Ghana which implementing e-accounting software have the tendency to reduce cost, enhance clerical works, provide sufficient space to store data and process information for management decision in a timely manner. Moreover, having financial information which is audited and conform with accrual based concept get benefit in the form of greater access to credit and that firms with accrual-based financial statements benefit in the form of a lower cost of credit (Alle and Yohn, 2009). However, previous studies also showed that SME's face many obstacles in applying accounting in their business. The obstacles which hindered accounting application in SMEs were the education factor, and the lack of understanding about accounting and its importance (Kurniawati and Hermawan, 2012). Chhabra and Pattanayak (2014) also reveal that most of small-scale business lack knowledge in bookkeeping, cost computation and compilation, and time management in maintaining financial records. While adopting an accounting systems mostly are too large and complex to comprehend them in entirety and traditional information technologies are not efficient (Christauskas and Miseviciene, 2012). Maingot and Zeghal (2006) conclude that small business entity are tend to use financial information for taxation purpose and borrowings, so that the small business stakeholders are dissatisfied with the small business accounting standard in Canada.

Based on that fact, this research was done to find out the accounting application in SMEs by identifying recorded transactions, documents being used, financial statements, and obstacles that were on the way. These basis can be used to create a suitable accounting for SMEs.

Literature Review

Accounting

Accounting serves as a process to identify, measure, and communicate information to help the user make right decision or judgment (*American Accounting Association*, 1996). Warren, Reeve, and Fess (2005) defined accounting as information system that produces reports to the interesting parties about economic activities and company's condition. The objective of accounting is simply to produce information used by managers to run company's operation (Warren et al., 2005).

According to Reeve et al (2008), accounting can be defined as an information system that provides reports to stakeholders about the economic activities and condition of a business. The system itself has following steps :

1. Analyzing and recording transactions in the journal
2. Transactions are posted to the ledger
3. Preparation of unadjusted trial balance



4. Adjustment data are assembled and analyzed
5. Preparation of end-of-month work sheet (optional)
6. Adjusting entries are journalized and posted to the ledger
7. An adjusted trial balance is prepared
8. Financial statements are prepared
9. Closing entries are journalized and posted to the ledger
10. A post-closing trial balance is prepared

The steps are continuously flow as the company's activity. One of most important aspect of the accounting system is recording transactions, which comprises :

1. Creating or receiving transaction evidences.
2. Transactions recording into the journal and categorize those transactions into appropriate accounts.
3. Post the journal record into ledgers (Soemarso, 2004)

Each journal need for sufficient evidence, to validate the transactions. The transaction evidences contain and present data and facts about the transactions, include the transactions' timing, type, nominal amount and involved parties. The transaction evidences can be in the form of invoice, cash receipt voucher and payment voucher (Ainun, 1988).

Accounting can provides useful information to interested parties, either internal or external parties. The information usefulness is in relation with decision making and accountability. Accounting primary function is the source of financial informations to the organization, as it is a quantitative information using monetary measurement. The accounting informations reflect financial position and it changes.

The mentioned accounting informations refer to financial statements. Financial statements are the final output of accounting process (Yadiati & Ilham, 2006). Financial statements according to Indonesian Accountant Institute (2009) comprises :

1. Financial Position
2. Comprehensive Income Statement
3. Cashflow Statement
4. Statement of Changes in Equity
5. Notes to Financial Statement

Parties whose are interested to financial comprise internal and external parties. Internal parties have direct relationship to company's daily activities, i.e. management. The external parties can be government, communities, investors and customers.

Small and Medium Enterprises

Indonesian Act Number 20 (2008) about Micro, Small, and Medium Enterprises stated that definitions of Small and Medium Enterprises are:

- a) Small enterprises is a productive economic activity which is private and owned by an individual, or a business entity that is not a subsidiary or a branch of a company not owned, ruled, or become, directly or indirectly, a part of medium or large business that



fulfills the criteria of small business as mentioned in this act.

- b) Medium enterprises is a productive economic activity which is private and owned by an individual, or a business entity that is not a subsidiary or a branch of a company not owned, ruled, or become, directly or indirectly, a part of medium or large business with net worth or amount of annual sales as provided in this act.

Accounting for small medium enterprises itself can be based on accrual or cash accounting. The SMEs may adopting either accrual or cash accounting are the nature of business, convenience in record keeping, and usefulness in decision-making of the financial statements prepared under the chosen method (Cudia, 2008).

Research Method

The data used in this research are primary data. Population of this research are SMEs in Salatiga, CentralJava, Indonesia. The convenience sampling method are conducted on the basis of assets and earnings in accordance with Indonesian Act Number 20, 2008. According to the act, criteria for small and medium enterprises are:

- a) Small Enterprises:

1. Net asset is more than IDR 50,000,000 to IDR 500,000,000, but land and building are not included.
2. Annual sale is more than IDR 300,000,000 to IDR 2,500,000,000.

- b) Medium Enterprises:

1. Net asset is more than IDR 500,000,000 to IDR 10,000,000,000, but land and building are not included.
2. Annual sale is more than IDR 2,500,000,000 to 50,000,000,000.

Table 1 describes resume of the criterias as follows:

Table 1. Criteria for SMEs According to Indonesian Act Number 20, 2008

No	Description	Criteria	
		Asset	Gross Sales
1	Small Business	50-500 million	300 million - 2.5 billion
2	Medium Business	500 million - 10 billion	2.5 -50 billion

Based on rules of thumb stated by JT Roscoe (1975), Mentioned that the adequate sample of measurement ranges from 30-500 (Supramono and Utami, 2003). Chosen from 180 SMEs, 29 companies refused, 8 companies did not meet the criteria, and so there were 143 SMEs left the which will be researched furthermore. Data were gathered through interviews, observations and using questionnaires. The respondents of this study are the management of SMEs which considered to have an understanding about accounting for the business. The management itself refer to owners and employees who are authorized to manage the business. Furthermore, the analysis method to solve the research problem is descriptive qualitative analysis technique.



Data Analysis And Discussion

Description of the Research Objects

The research objects are SMEs in Salatiga, Central Java, Indonesia. They consist of three types of business, which are service, merchandising, and manufacturing business. Salatiga itself, is a small town in Central Java province, which has an area of 56.78 km² ±, consists of 4 districts, 22 sub-districts. Salatiga has a population of 176 795 inhabitants. Salatiga is located in 450-800 meters above sea level. Table 2 below, show us the trend of SMEs number and its labour absorption in Salatiga from 2006-2012.

Table 2. Salatiga SMEs Figure and amd Labour Absorbtion

Description	Year						
	2006	2007	2008	2009	2010	2011	2012 *
SMEs NUMBER	20.872	32.354	32.446	32.476	31.662	32.191	31.157
Micro	15.393	26.026	26.233	26.423	25.420	25.638	25.242
Small	5.231	5.979	5.878	5.737	5.899	6.183	5.606
Medium	248	349	335	316	343	370	309
LABOUR ABSORPTION	43.977	75.988	75.488	74.658	74.789	77.054	72.480
Micro	25.070	46.564	46.863	47.122	45.625	46.064	45.279
Small	15.772	21.304	20.868	20.270	21.153	22.300	20.036
Medium	3.135	8.120	7.757	7.266	8.011	8.690	7.165

Source : Central Java SMEs & Cooperative Agency

*Projection

Most SMEs in Salatiga (79.72%) is managed by the owners themselves, so that the owner can instantly find out the transactions that occur in their business (See table 3). Table 4 shows us that 43.96% of SMEs managers were high school graduates.

Table 3. Business Managers

N o	Explanation	Amount of the Respondent	Percentage
1	Run by owners	114	79.72%
2	Run by employees	29	20.28%
Total		143	100%

source: modified primary Data

Table 4. Educational Level of Manager

N o	Educational Level	Respondents Number	Percentage
1	Primary School	12	8.47%
2	Junior High School	33	23.15%
3	High Scholl	63	43.96%
4	Diploma	14	9.66%
6	Undergraduate	19	13.36%
8	Graduate	2	1.40%



TOTAL	143	100%	100%
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source: modified primary Data

Most of the SMEs (84.62%) still using manual method to record their transactions (See Table 5). Based on the interviews, respondents still use manual recording due to the use of computers is considered as complicated.

Table 5. Technology of Recording

N o	Explanation	Respondents Number	Percentage
1	Computerized	22	15.38%
2	Manual	121	84.62%
Total		143	100%

source: modified primary Data

Transaction Recording

Based on the research results, the majority of SMEs in Salatiga already keep records of the sale, purchase, cash in, cash out, inventory, payroll and other operating expenses. The most recorded transactions by SMEs are those which related to cash-in and cash-out, amounting to 78.32%. Information related to the cash balance is considered as very important, due to the availability of cash can affect the ability to buy and re-sell merchandise. The SMEs management also assume that the operating profit can be estimated by the difference in cash in cash out, since most of their transactions are on cash basis. Table 6 below shows the transactions recorded by SMEs managers.

Table 6 Transaction Records

N o	Recorded Transaction	Respondents				Respondents Number	
		Recorded		Not Recorded		Total	%
		Number	%	Number	%		
1	Sales	93	65.03%	50	34.97%	143	100%
2	Purchases	85	59.44%	58	40.56%	143	100%
3	Cash inflows	112	78.32%	31	21.68%	143	100%
4	Cash outflows	112	78.32%	31	21.68%	143	100%
5	Inventories	66	46.15%	77	53.85%	143	100%
6	Salary expenses	60	41.96%	83	58.04%	143	100%
7	Other operating expenses	83	58.04%	60	41.96%	143	100%
Average		87.29	61.04%	55.71	38.96%		

source: modified primary Data

Reporting

The financial statements can provide information about the business activities and conditions. Based on the results of the study, only 22,9% of respondents whose produce the financial statements. The reports are sales reports (56.64%), purchase report (46.85%), income statement (11:19%), statement of changes in capital (9:09%), the balance sheet (9.79%) (see table 6) . The rest, amounted by 77.51% of the respondents did not make any report. Based on the results of the study, respondents considered that the report is not necessary to be made if there are no obligations or interests that require the report





producing. They also consider that report producing is a sophisticated process. Reports which are made by the SMEs managers in Salatiga can be seen in Table 7, as follows:

Table7. Existing Reports Available on SMEs

Reports	Respondents				Respondents	
	Make Reports		Not Make Reports		Number	
	Number	%	Number	%	Total	%
Sales report	81	56.64%	62	43.36%	143	100%
Purchase report	67	46.85%	76	53.15%	143	100%
Income statement	16	11.19%	127	88.81%	143	100%
Statement of owner's equity	13	9.09%	130	90.91%	143	100%
Balance sheet	14	9.79%	129	90.21%	143	100%
Cash flow report	2	1.40%	141	98.60%	143	100%
Average	32.17	22.49%	110.83	77.51%		

source: modified primary Data

The Purpose of Recording and Reporting

Based on this research, the purpose of recording and reporting made by SMEs, mostly (73.43%) is to meet the needs of management in business management. While the others do the recording and reporting with varying objectives, which are for filing of bank loans, tax reporting and the combination between the various interests (see Table 8).

Table 8 The Objectives of Recording and Reporting

Recording and Reporting Objectives	Respondents	
	Amount	Percentage
Management	105	73.43%
Bank loans	0	0,00%
Taxes	4	2.80%
Management and bank loans	2	1.40%
Management and taxes	6	4.20%
Management, bank loans, and taxes	6	4.20%
Not available	20	13.99%
Total	143	100%

source: modified primary Data

Obstacles in Accounting Application

Some of the obstacles faced by managers of SMEs in Salatiga in doing recording and reporting, i.e. due to the factor of education and lack of accounting knowledge. Based on the results of the study, only 20.93% of those whose ever attended the training of accounting (see Table 8). This leads to a low level of understanding of the importance of recording and reporting in business management. They argue that accounting is something that is complicated and troublesome. In addition, the majority of business managers (79.72%) is the owner of the company itself (see Table 3). They assumed that the recording and reporting are only required for enterprises managed by others as a form of business management accountability.





Table 9 Experience to Attend Accounting Education/Training

Experience to Attend Accounting Education/Training	Amount	Percentage
Ever	30	20.93%
Never	113	79.07%
Total	143	100%

source: modified primary Data

Appropriate Accounting for SMEs

The research results shows that the majority of SMEs in Salatiga already have a transaction records particularly on the sale, purchase, cash receipt, cash payment, inventory, payroll and other operating expenses. In regard to non-cash transactions, the company have additional notes to record receivable and their debt. These additional notes can be regarded as subsidiary books, a term in double entry bookkeeping accounting. Based on the transaction records and additional notes to receivable and debt, actually they can produce simple financial statements, which can be made monthly or yearly basis according to their need, as follows:

Income Statement

The calculation of the income statement for SMEs can be simply produced by subtracting the cost of sales from total revenue/sales during the period. Cost of sales itself can refer to purchase records. The remaining amount is called gross profit. Furthermore, the gross profit should be deducted by any other expenses that burden the company (salaries and other operating costs), to generate an operating profit. Afterward, the tax expense can be deducted from operating profit to derive the net income. Based on the income statement informations, the owner can assess the performance of their business by knowing the profits they earn.

Statement of Changes In Capital

For SMEs, the statement of changes in capital can be produced, first by identifying the value of the initial capital of the company in the last period. The step is done by identifying of all capitals, either in the form of cash or non-cash, including all assets owned by the company. Furthermore, the total value of the initial capital is added with the profits earned or subtracted with loss incurred in current period. Then the amount is deducted by the withdrawal of the owner and added with an additional investment of the owners, the result is the value of the ending owner's capital. From the statement of changes in capital, the owner can determine the performance of their business by knowing their capital increase or decrease compared to the previous period.

Balance Sheet



Balance Sheet consists of a group of assets, liabilities and capital. For producing balance sheet, the SMEs should begins by identifying all assets owned and liabilities held by the company. Identifying the assets' value can be obtained by taking the balance in cash notes, accounts receivable, inventory stock. The long term asset, i.e. equipment, machinery, vehicles, land and buildings, as well as other assets may be listed in accordance with the acquisition price. Identification of the liability can be obtained by taking the value of the balance on the note payable, bank loans, or other debts. While the capital value can be specified in accordance with the capital value of the final report of capital changes have been made previously. By the balance sheet, the owner can determine their current financial position.

The preparation of financial statements as above with just rely on business records owned SMEs is not too accurate than if SMEs applying double entry bookkeeping. However, the limitations of the financial statements producing method as above is suitable for SMEs which have business and transactions records.

CLOSING

Conclusion

The research concludes that not all SMEs in this research keep records of transactions and financial reporting. Results show that 61.04% of SMEs had done recording, but only 22.49% of them made financial reports. Transactions recorded include sales transactions (65.03%), purchase transactions (59.44%), cash inflows and cash outflows (78.32%), inventories (46.15%), salary (41.96%), and other operational expenses (58.4%). Reports which were made by the managers were sales reports (56.64%), purchase reports (46.85%), income statements (11.19%), statement of owner's equity (9.09%), and balance sheet (9.79%).

The limited education and understanding of the importance of accounting and assumption that accounting is only required for enterprises managed by other parties were obstacles in accounting application in SMEs. Therefore, a simple accounting is needed for SMEs.

By using existed business records, which can be regarded as subsidiary books, SMEs can produce simple reports for their daily business management. As the same input, SMEs can also simply produce an income statement, balance sheet and changes in capital. Furthermore, the management can assess the performance and know the financial position of each period. With the information from the financial statements, it is expected that SMEs can make business decisions with greater accuracy to improve their business performance. Therefore, by applying accounting, management of SMEs will be, hopefully, better to increase of Reviews their contribution for Indonesia's economy

Suggestion

SMEs' financial reporting should be produced in accordance with the needs of their business. Sales and operational costs records which have been held should be properly maintained. For SMEs' which have non-cash transactions, they should have a record of accounts per customer / debtor and the debt per suppliers / creditors. In addition to the notes to the cash and inventory, SMEs also need to have a fixed asset record includes equipment, machinery, vehicles, land and buildings, as well as other assets.



Limitations of Research

Limitations of the study is not to discuss more about other important accounting method about fixed assets depreciation and inventory costing in the financial statements of SMEs.

Future Research

For future studies, researchers should conduct research on SME based on their criteria of accounting application requirement in business, between SMEs which need and to them which may not need. Further research can also see the difference in performance of SMEs that apply accounting in their business and the ones which do not apply.

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