THE IMPLEMENTATION OF INDONESIAN ACCOUNTING STANDARDS FOR MICRO, SMALL AND MEDIUM ENTITIES

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Abstract

Purpose of the study: Indonesian taxation regulations are forcing MSMEs to apply Indonesian Accounting Standards for Micro, Small and Medium Entities/*Standar Akuntansi Keuangan untuk Entitas Mikro, Kecil, dan Menengah* (SAK EMKM), according to their particular conditions. The application is confusing for MSMEs. This problem is what drives this research, aiming to define the relationship between MSMEs' conditions and how they perceive SAK EMKM.

Methodology: There were 70 MSMEs in Indonesia participated in this research by filling out questionnaires. However, only 66 MSMEs guided questionnaires returned that we could process. We analyzed using linear regression and SPSS 23. The research indicators are built based on the factors that influence each variable, as already stated in the literature review.

Main Findings: These results from data processing indicate that the MSMEs' conditions have a very positive effect on respondents' perceptions of SAK EMKM. Statistically, we can get the coefficient regression of 0.262, the significance of 0.001 and the coefficient of determination of 22.8%. It means that MSMEs with good conditions have the potential to make respondents' perceptions of SAK EMKM also agreeable.

Applications of this study: The regulation is still new. Also, the amount of MSME implementing SAK EMKM is still meager. Tax regulators and The Institute of Indonesia Chartered Accountants can utilize the results of this study to understand the obstacles faced by MSMEs. By knowing the condition of MSMEs, they can group MSMEs and provide appropriate facilities for the good of MSMEs as well as tax advantages.

Novelty/Originality of this study: Indonesia does not implement IFRS SMEs. However, we have implemented the SAK for Non-Public Accountability Entities, which is too complicated for MSMEs. Therefore we use SAK EMKM. Since it is still new, this research is still in its early stages. So far, we have not found a study in Indonesia that discusses the link between MSMEs' conditions and their perceptions of SAK EMKM.

Keywords: Indonesian Accounting Standards, MSMEs, Condition, Perception.

INTRODUCTION

Indonesia is a developing economy. The government strongly influences the economic markets in Indonesia. It is evident from the number of government companies listed on the Indonesia Stock Exchange (IDX). With The Institute of Indonesia Chartered Accountants/*Ikatan Akuntan Indonesia* (IAI) as the only accountant association recognized by the Ministry of Finance, IAI is tasked with regulating codes of ethics, accounting, and auditing standards, implementing Certified Public Accountant (CPA) examinations and various professional education programs. IAI also determined that the implementation of financial reporting using IFRS began as of January 1, 2012. Although it was one year late compared to other Asian countries (China, India, Japan, Korea, Malaysia, Singapore, Thailand, and the Philippines), it was beneficial for Indonesia. It is due to the opportunities that Indonesia has to reflect on other countries that have implemented IFRS (Ibarra & Suez-Sales, 2011).

International Accounting Standard Board (IASB) itself does not only provide IFRS for entities with public accountability but also provides IFRS for small and medium businesses known as International Financial Reporting Standards for Small and Medium Enterprises or IFRS for SMEs. Yet, IFRS for SMEs is difficult to understand and to implement for professionals or SME's owners/managers (Albu et al., 2013; Neag, Masca, & Pascan, 2009; Ram & Newberry, 2013; Uyar & Güngörmüş, 2013; van Wyk & Rossouw, 2009). IFRS for these SMEs was modified to become Indonesian Accounting Standards for Non-Publicly-Accountable Entities (SAK ETAP) and became mandatory since January 1, 2011. However, for conditions in Indonesia, SAK ETAP alone is still too excessive for micro-entities that have different financial reporting goals, one of which is taxation (Ibarra & Suez-Sales, 2011).

Not only in Indonesia, but the Philippines also makes financial accounting standards for SMEs called the Philippines Financial Reporting Standards for Small and Medium Enterprises (PFRS for SMEs). The level of company compliance with the implementation of the PFRS for SMEs has generally increased, although not significantly. Also, there was no significant difference in the performance of small and medium enterprises before and after the implementation of the PFRS for SMEs (Ferrer, 2016).

Meanwhile, conditions in Japan show an interesting phenomenon related to the application of accounting standards for SMEs. Until 2014, Japan still did not require the use of IFRS for SMEs. The community shows a different perception of SMEs that apply Japanese accounting standards with SMEs that use IFRS / IFRS for SMEs. Besides, the taxation policy in Japan itself causes SMEs in Japan to prefer to use Japanese accounting standards rather than IFRS / IFRS for SMEs. This

preference gives rise to different managerial accounting decisions and different financial reporting qualities (Fujibayashi, Kojima, & Tsuji, 2015).

In Indonesia alone, as of January 1, 2017, IAI has just applied Indonesian Accounting Standards for Micro, Small and Medium Entities/*StandarAkuntansi Keuangan* (SAK EMKM). This SAK EMKM is mandatory for Small, Micro and Medium Enterprises (MSMEs). MSMEs may choose to use SAK EMKM or SAK ETAP if the SAK EMKM is deemed inadequate. Similarly, medium and large entities without public accountability may use SAK ETAP or IFRS if SAK ETAP is considered inadequate.

The tax regulation is strongly influencing the application of Indonesian GAAP in Indonesia. Meanwhile, taxation regulations in Indonesia are increasingly orderly and strict, forcing MSMEs to apply IFRSs according to their particular conditions. With education levels in Indonesia still relatively low, the application of SAK ETAP and SAK EMKM is considered confusing, especially for small and micro-enterprises. This problem is what drives this research. It aims to define the relationship between MSMEs' conditions and how they perceive SAK EMKM.

LITERATURE REVIEW

We use several theories to explain this research, including Agency Theory (Jensen, M., & Meckling, 1976); Stewardship Theory (Donaldson & Davis, 1991); Resource-based view of the firm Theory (Penrose, 1995; Rumelt, 1991; Wernerfelt, 2007); and Socio-technical Wealth Theory (Berrone, Cruz, & Gomez-Mejia, 2012).

From previous research, we agreed that EMKM does require financial reporting standards that are different from large companies and go public. IFRS for MSMEs is also better than GAAP provisions published by the FASB (Jermakowicz & Epstein, 2010). Comparing other Asian countries, Indonesia is a year slower in implementing IFRS and compiling SAK ETAP (Ibarra & Suez-Sales, 2011). However, this delay brings benefits, because Indonesia can learn from the experiences of other countries that have implemented it as a whole.

Although there are already IFRS for MSMEs, many countries have chosen to compile IFRSs themselves for companies that are not public and MSMEs (Elifoglu, Fitszimons, & Siliman, 2012). This phenomenon occurs because often the purpose of financial preparation for both types of companies is different from companies that go public. However, MSMEs with excellent performance in Japan tend to apply Japanese Accounting Standards for SMEs rather than IFRS for SMEs. It is because they associate lower profits with lower taxes (Fujibayashi et al., 2015). Meanwhile, one study in the Philippines tested whether there was an increase in compliance of local industry entities after applying the Philippines Financial Reporting Standards for SMEs (PFRS for SMEs). The results showed that there was an increase in adherence to disclosure even though it was not significant, although there were no significant differences in the performance of MSMEs before and after implementing the PFRS for SMEs (Ferrer, 2016).

Micro, Small and Medium Enterprises Conditions

The MSMEs conditions are facts faced by respondents in the field while running a task with the entity in which the respondent is a resident or another entity known by the respondent or found from mass media or other data sources. The following are some of the things that MSMEs have in Indonesia (Dr. P.S. Venkateswaran et al., 2019; Desfiandi et al., 2019). First of all, the entity has heard about Financial Accounting Standards, understood the contents of the Financial Accounting Standards, and understood the practice of preparing financial reports based on Financial Accounting Standards. Then, the entity feels the need to prepare financial statements based on the Financial Accounting Standards, feels that the existing Financial Accounting Standards are so complicated that they are reluctant to implement them and that the application of the Financial Accounting Standards for entity reporting will make the financial statements/accounting of the entity better. Moreover, the entity feels that the application of the Financial Accounting Standards can provide information about the entity's profit/loss and financial position that is useful for business progress (Haldorai et al., 2019; S. Murugan et al., 2019). The entity also feels that the application of the Financial Accounting Standards for reporting entities will make the financial statements/bookkeeping of the entity more trusted by banks to channel credit. Entities do not have sufficient educational background to apply Financial Accounting Standards in reporting entities. Entities who are innovative in spirit (like applying new things, like to keep up with the latest developments) (Adisanjaya et al., 2018; Widarma et al., 2019; Yanti et al.,2019) have a stronger motivation to implement Financial Accounting Standards. Some of the entities have done bookkeeping and used accounting software to support bookkeeping. So they can provide information about the basis of preparing financial statements and accounting policies, and additional information not presented in financial statements. Eventually, they can present a report on changes in financial position, a profit/loss statement, and a cash flow statement. Even better, they have practiced social responsibility activities such as giving donations and charities and carried out practices related to environmental preservation activities such as energy-saving and waste management (Adisanjaya & Ramantha, 2018).

Perception of SAK EMKM

Micro, Small and Medium Entities are entities without public accountability as defined in SAK ETAP, but which meet the criteria for micro, small and medium enterprises. The following are the factors that influence respondents' perceptions of SAK EMKM. SAK EMKM is easier to apply to entities compared to SAK ETAP because there is peer support for

implementing SAK EMKM. SAK EMKM does not require entities to include post-employment benefits. Therefore, the SAK EMKM is more appropriate for MSMEs than SAK ETAP. The adoption of SAK EMKM in the preparation of the entity's financial statements is able to describe the performance and financial position of the entity fairly. Also, The application of SAK EMKM in the preparation of financial statements can contribute to users of financial statements because it can fairly describe the performance and financial position of the entity Yasa, I. K. (2019) & Aditya et al., (2019). The implementation of the SAK EMKM can help the preparation of financial reports faster and easier. Moreover, the application of the SAK EMKM in the preparation of the financial statements of the entity can assist the director-general of tax in determining the entity tax. (Sari et al., 2019; Putri et al., 2019) The adoption of the SAK EMKM in the preparation of the entity's financial statements enables the comparison of financial statements of entities with other entities in one country or other countries. In the end, the application of the SAK EMKM in the preparation of the entity's financial statements allows the entity to obtain credit facilities and financing from banks and financial institutions; and to get the same opportunities as large companies in acquiring investors (Adisanjaya & Ramantha, 2018).

METHODOLOGY

We held a group discussion related to SAK EMKM accompanied by the Office of Cooperatives and SMEs as representatives of the government. We invited all MSMEs in the Cooperative and MSME databases. However, only 70 MSMEs in Indonesia were willing to participate in the focus group discussion and filling out questionnaires. Of the 70 questionnaires filled out, only 66 guided questionnaires submitted by MSMEs respondents that we could process. We analyzed using linear regression and SPSS 23. Before analyzing, we tested a set of classical assumptions, which consist of the normality test and heteroscedasticity test. We also examined the data quality using reliability and validity tests. The results are shown below. The research indicators are built based on the factors that influence each variable, as already stated in the literature review.

Table 1: Classical Assumptions & Data Quality Tests Results

Tests	Results	Conclusion
Normality	Asymp.Sig. = 0.200	H_0 accepted
Heteroscedasticity	Sig.= 0.997	H_0 accepted
Reliability Test	0.842	H_0 accepted
Validity	Sig<0.005	H_0 accepted

DISCUSSION / ANALYSIS

Initially, the data collected, as many as 70 questionnaire recaps, did not have a normal distribution. Then we issued four extreme data/outliers until the remaining 66 data were in a normal distribution. Of the 21 indicators of MSME condition variables, it turns out that only 17 indicators are valid and reliable. Meanwhile, all indicators of respondents' perceptions of SAK EMKM are valid and reliable. The results of classical assumption tests showed that the model passed the normality and heteroscedasticity test.

Demographically, this study shows that there are no differences in respondents' perceptions of SAK EMKM. We conducted additional testing in which it turns out that age, gender, education, type of company, company size, position, work experience did not show significant differences in respondents' perceptions. Most respondents were women under the age of 40 who owned micro-scale business and service firms with high school education and less than three years of experience. Most do not understand SAK, let alone SAK EMKM.

While these results from data processing indicate that the Msme's conditions have a very positive effect on respondents' perceptions of SAK EMKM. Statistically, we get the coefficient regression of 0.262, the significance of 0.001 and the coefficient of determination of 22.8% as shown below. It means that MSMEs with good conditions have the potential to make respondents' perceptions of SAK EMKM also agreeable (Adisanjaya & Ramantha, 2018).

Table 2: Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	21.562	3.604		5.982	0.000
	Conditions	0.262	0.058	0.489	4.489	0.000
	Adj. R^2	0.228				

Some impressive results from this study are that most MSMEs respondents stated that they had heard and understood Financial Accounting Standards. However, they do not understand the practice of preparing financial statements based on Financial Accounting Standards. They understand that they need to prepare financial statements based on Financial Accounting Standards, but the existing Financial Accounting Standards are too complicated. (Utami et al., 2019; Dewi et al., 2019) They also understand that the application of the Financial Accounting Standards for entity reporting will make the financial statements/accounting of the entity better. Better bookkeeping can provide information about the entity's profit/loss and financial position which is useful for business progress so that it is more trusted by banks to channel credit.

One of the reasons that the Financial Accounting Standards are not applied is because MSMEs respondents do not have sufficient educational background to implement Financial Accounting Standards in entity reporting (Aksiana et al., 2019). However, for respondents who are innovative in spirit (like applying new things, like to keep up with the latest developments), they have a stronger motivation to implement Financial Accounting Standards (Uyar & Güngörmüş, 2013).

The phenomenon that occurs among respondents in this study shows that many of them do not do bookkeeping, so they feel they do not need to use accounting software to support bookkeeping. As a result, they cannot provide information based on the preparation of financial statements and accounting policies or additional information that not presented in financial statements (Kesuma et al., 2019; Yani et al., 2019). However, it is strange, even though they do not do bookkeeping, they can present a report on changes in financial position, profit/loss statement, and cash flow statement. Many of the respondents also claimed to be weak in terms of conducting practices related to social activities such as giving donations and charities and practices related to environmental activities (saving energy, waste management)(K. Mythili et al., 2013)(Albu et al., 2013)

Most respondents still feel that the SAK EMKM is not easier to apply to entities than SAK ETAP, but some of the provisions in them are more appropriate for them than SAK ETAP. They need peer support to implement SAK EMKM. They also believe that the application of the SAK EMKM in the preparation of the entity's financial statements is able to describe the performance and financial position of the entity fairly. The adoption of SAK EMKM in the preparation of financial statements can contribute to users of financial statements because they can reasonably describe the performance and financial position of the entity. (Negara et al., 2019; Mandala et al., 2019; Prawira D et al., 2019) If they have sufficient resources to understand SAK EMKM, they believe that the application of the SAK EMKM can also help in preparing financial reports faster and easier. Besides, the application of the EMKM SAK in the preparation of the entity's financial statements can assist the director-general of tax in setting entity tax. The application of EMKM IFRSs in the preparation of the entity's financial statements enables the comparison of the financial statements of the entity with other entities in one country or other countries and allows the entity to obtain credit facilities and financing from banks and financial institutions. Moreover, in the end, most respondents answered that the application of EMKM IFRSs in the preparation of entity financial statements allows the entity to get the same opportunities as large companies in acquiring investors (Adisanjaya & Ramantha, 2018; Albu et al., 2013; Uyar & Güngörmüş, 2013).

CONCLUSION

MSMEs respondents, which have better conditions, show better understandings of SAK EMKM. Although most respondents believe that currently, the SAK EMKM is the best SAK for them, they are still reluctant to implement because of various obstacles. These obstacles both in terms of inadequate educational background in accounting, do not have human resources who understand accounting, and lack of support from fellow EMKM actors, government, and other accounting practitioners. One other oddity, even though they are reluctant to implement SAK EMKM, but somehow, they can still present reports of changes in financial position, statement of profit/loss, and cash flow statements. It needs to be further investigated, how they produce these financial statements.

THE IMPLICATIONS OF THIS STUDY AND FINDINGS

There are 59.2 million MSMEs in Indonesia 2017 (Yuliani, 2017). So, the number of respondents involved in this study still cannot reflect the conditions of MSMEs in Indonesia. For convenience, we suggest future researchers distribute questionnaires online; bearing in mind the current number of MSMEs that have been online as of 2019 has reached 8 million MSMEs.

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