

IT IS RARE FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) TO MAKE FINANCIAL REPORTS

Rusydi Abubakar¹, Nurul Hikmah Tanjung², Ainna Mahrum Nasution³,
Sri Wahyuni⁴, Rico Nur Ilham⁵

^{1,2,3,4,5}Faculty of Economics and Business Universitas Malikussaleh

Correspondence Email: riconurilham@unimal.ac.id

Abstract

This study aims to analyze the level of awareness and readiness of Micro, Small, and Medium Enterprises (MSMEs) in preparing financial and tax reports. The data used in this study is primary data. The data obtained were analyzed using qualitative and quantitative research methods. The results show that the level of awareness and readiness of MSMEs in preparing financial and tax reports is still relatively low. MSMEs with the support of regulators need to make extra efforts to minimize the obstacles faced when compiling financial and tax reports.

Keywords: *Awareness, Readiness, Financial reports, Ukm*

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have an important role in improving the regional economy and the economy of a country. According to Tambunan (2012) in Indonesia, MSMEs were proven to have an important role in overcoming the consequences and impacts of the economic crisis that occurred in 1997 in which many large companies experienced bankruptcy, while MSMEs were able to survive the crisis conditions. Apart from that, this sector is able to increase people's per capita income or Gross Domestic Product (GDP) because it is able to absorb quite a large workforce. Every business actor is obliged to prepare financial reports for his business. Based on Statement of Financial Accounting Standards Number 1 concerning the Presentation of Financial Reports, the preparation of an entity's financial reports is intended to provide information regarding the entity's financial position, financial performance and cash flow which is useful for the majority of report users in making economic decisions, one of which is the tax authority. To fulfill their tax obligations, taxpayers must adjust their financial statements to the applicable tax provisions. This aims to ensure that the financial report can be used as a basis for calculating, paying and reporting the Income Tax (PPH) of paid Taxpayers, and the tax reporting is still relatively low. Low awareness in preparing financial and tax reports can cause MSMEs to be unable to fulfill their tax obligations properly. Currently, many MSMEs are facing various challenges in running their businesses. In this context, the problem that often arises is a lack of customers which results in low income and a lack of funds needed to open new business branches. The background to this problem can be explained by several influencing factors.

Tight Market Competition

The micro, small and medium enterprise (MSME) market is often very competitive. In an industry full of competition, MSMEs must compete with larger and more established companies that have greater resources. As a result, MSMEs often have difficulty attracting customer attention and competing on price and product or service quality.

Limited Financial Resources

MSMEs generally have limited access to financial resources. They often face challenges in obtaining sufficient funding to expand their businesses. Banks and traditional financial institutions are often reluctant to provide loans to MSMEs because they are considered to have high risks or do not have adequate collateral.

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Limited Market Access

MSMEs often face difficulties in reaching wider target markets. In the digital era, an online presence is key to increasing visibility and reaching potential customers. However, not all MSMEs are able or understand how to utilize digital platforms and social media to promote their products or services.

Lack Of Business Knowledge And Skills

Many MSMEs were founded by business owners who have special expertise in the product or service they offer. However, they may not have enough knowledge and skills in overall business management. This may include knowledge of marketing, finance, operations, inventory management, and effective business strategies.

Limited Infrastructure And Government Support

MSMEs in some regions may face infrastructure challenges such as limited access to a stable internet network, inefficient logistics, or lack of access to wider markets. In addition, government support in the form of training, financing and conducive regulations can also play an important role in helping MSMEs overcome their challenges. In this context, MSMEs that experience a lack of customers and a lack of funds to open business branches have complex challenges in developing their businesses. There needs to be support and appropriate solutions, both from the government, financial institutions and the business community, to help MSMEs overcome this problem and achieve sustainable growth. For Micro, Small and Medium Enterprises (MSMEs), preparing financial and tax reports is a challenge in itself, considering the limited quantity and quality of the resources they have. Based on data from the Directorate General of Taxes, Ministry of Finance in 2019, it is known that the number of registered MSME taxpayers is 5 million. However, only 2.3 million taxpayers have an active Taxpayer Identification Number (NPWP) and make tax payments. This number is still far from data from the Ministry of Cooperatives and Small and Medium Enterprises, where registered MSMEs number 62 million. This is allegedly because the awareness of MSME actors in preparing financial and tax reports as a basis for calculating, paying and reporting taxes is still relatively low. Low awareness in preparing financial and tax reports can cause MSMEs to be unable to fulfill their tax obligations properly.

MSME Awareness

Based on the Big Indonesian Dictionary (KBBI), awareness is defined as 1) awareness, a state of understanding; and 2) things felt or experienced by someone. Consciousness is a concept that is often used in psychology. According to one psychologist, there are two formulations of consciousness (Pawlik, 1998). First, viewed from a functional aspect, awareness is attention and awareness. Second, viewed from the phenomenological aspect, consciousness describes internal awareness of one's self-conscious experience (self-awareness and self-consciousness). In this study, MSME awareness is linked to the awareness of MSME actors in preparing financial and tax reports. In accordance with previous research, awareness of MSMEs has an important role because it can provide great benefits not only for the MSMEs themselves, but also for stakeholders (Agustika et al., 2015; Setiyawati & Hermawan, 2018; Rawun & Tumilaar, 2019; Maghriby & Ramdani, 2020; Sularsih & Wikardojo, 2021). The benefits in question include: 1) providing convenience in submitting capital to third parties; 2) provide convenience in applying for credit to third parties; 3) provide information about the financial condition of the business; 4) provide information about business developments; and 5) provide convenience in calculating the tax payable. To increase awareness of MSMEs, DSAK IAI has made it easier for MSMEs to prepare financial reports. In this case, DSAK IAI has ratified SAK EMKM, which has the simplest level of complexity compared to other SAK. This is also done in the realm of taxation. The tax authority also provides tax incentives in the form of relief and convenience in reporting taxes to MSME

taxpayers (Rachmawati & Ramayanti, 2016). Ease of Preparing MSME Financial and Tax Reports Financial reports have an important role because they can be used as a basis for making decisions. This does not only apply to large companies, but also to MSMEs. MSMEs find it easy to prepare financial reports. In this case, MSME players can apply SAK EMKM which has the simplest level of complexity compared to other SAK, such as SAK ETAP and IFRS-based SAK. By using SAK EMKM, MSME players only need to present a Financial Position Report, Profit and Loss Report and Notes to Financial Reports. In other words, MSME players do not need to prepare Capital Change Reports and Cash Flow Reports, as required by SAK ETAP and IFRS-based SAK.

Table 1.
MSME Criteria Based on Business Capital and Annual Sales Results

Criteria	Micro business	Small business	Medium Business
Business Capital (excluding land and buildings where the	\leq IDR 1 Billion	$>$ IDR 1 Billion – 5 Billion	$>$ IDR 5 Billion – 10
Annual Sales Results	\leq IDR 2 Billion	$>$ IDR 2 Billion – 15 Billion	$>$ IDR 15 Billion – 50

MSME Readiness

Readiness comes from the word ready. According to the KBBI, one of the meanings of being ready is being ready. According to Chapnick (2000), readiness can be classified into eight criteria. First, psychological readiness, which is an important factor because it considers an individual's perspective on something. Psychological readiness can provide high opportunities for the implementation process. Second, sociological readiness, is a factor that takes into account the interpersonal aspects of the environment in which the program will be implemented. Third, environmental readiness, is a factor that takes into account the great power of stakeholders, both inside and outside the organization. Fourth, human resource readiness, is a factor that considers the availability and design of the human resource support system. Fifth, financial readiness, is a factor that considers the size of the budget and the allocation process. Sixth, technological skill (aptitude) readiness, is a factor that considers technical competence that can be measured and observed. Seventh, equipment readiness, is a factor that considers ownership of appropriate equipment. Eighth, content readiness, is a factor that considers content and targets. In this study, MSME readiness is linked to the willingness of MSME actors to prepare financial and tax reports.

2. IMPLEMENTATION METHOD

The method used in writing scientific papers is a mixture of qualitative and quantitative methods. Qualitative researchers as human instruments function to determine research focus, select informants as data sources, collect data, assess data quality, analyze data, interpret data and draw conclusions about everything (Sugiyono, 2019). According to Subagyo as quoted in Syamsul Bahry and Fakhry Zamzam (2015:3). Research methods are a way or way to find solutions to all the problems posed. Meanwhile, according to Priyono (2016:1) Research Methods are a way of doing

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something by using your mind carefully to achieve a goal. According to Sugiyono (2020: 16) quantitative research methods can be interpreted as research methods that are based on the philosophy of positivism, used to research certain populations or samples, collecting data using research instruments, quantitative/statistical data analysis, with the aim of testing hypotheses that have been established. set. According to Sinambela (2020) quantitative research is a type of research that uses numbers in processing data to produce structured information. According to V. Wiratna Sujarweni (2014:39) quantitative research is a type of research that produces discoveries that can be achieved (obtained) using statistical procedures or other means of quantification (measurement).

The data used in this research are primary and secondary data, obtained from survey results and interviews and international journals.

Interview results Capital Mr. Erwin started with around 5-6 million, with a monthly profit of around 8 million. The Bika Ambon cake business is a cake that has been around for a long time, because the Bika Ambon cake business has been around for almost 12 years. This Bika Ambon cake is made in his own house which is located on Jalan Dusun Tgk Mustafa Meunasah Blang Bireuen, apart from The Bika Ambon cake that he produces also produces several other cakes including Lapis Legit cake and sponge cake. The name of the product given by him is "Bika Ambon Annisa" cake.





In the interview, it was revealed that Mr Erwin did not have an official financial report for his income. He uses the money from his business for basic daily needs and saves it in a piggy bank. This shows that Mr Erwin uses internal funding to meet personal needs and develop his business. Mr Erwin once received business capital assistance from the government. This information indicates that he also utilized external funding sources to start or expand his business. Lack of customers can affect revenue and business growth. Therefore, Mr. Erwin needs to look for effective marketing and promotional strategies to attract more customers. Apart from that, from the interview it is also known that if Mr Erwin has more profits, he plans to buy gold. This illustrates Mr Erwin's investment preferences, where he tends to allocate his business profits in the form of valuable assets such as gold. Overall, this data reflects Mr. Erwin's use of internal financing in managing his business. He relies on income from his own business and savings in a piggy bank. However, the lack of customers is an obstacle that needs to be overcome to achieve better growth. In facing this challenge, Mr. Erwin can also consider a more aggressive marketing strategy or seek additional external funding to develop his business.

3. RESULTS AND DISCUSSION

Analysis of MSME Awareness Levels

In this research, MSME awareness was measured using two indicators, including: 1) awareness of the importance of preparing financial and tax reports; and 2) awareness of complying with SAK EMKM and tax regulations. When viewed from the first indicator, respondents in this study have a high level of awareness of the importance of preparing financial reports as presented in Figure 1. Of the several statements submitted, 49% of respondents chose "strongly agree" and 35% chose "agree". This means that around 84% of respondents perceive that financial reports have various benefits for the continuity of their business, both for applying for capital and credit to third parties, knowing the development of their business, and as a basis for preparing tax reports.

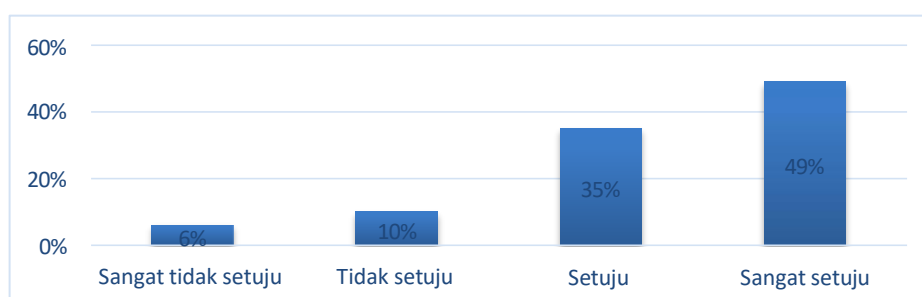


Figure 1.
Awareness of the Importance of Preparing Financial Reports

From Table 5 it is known that the majority of respondents with good knowledge have prepared financial reports for their businesses. However, there were still respondents with good knowledge who did not make financial reports, namely 22 respondents. On the other hand, 12 respondents with poor knowledge actually prepared financial reports for their businesses, although the majority of them did not prepare financial reports.

Table 2
Distribution of Number of Respondents: Knowledge vs Awareness in Preparing Financial Reports

Knowledge in Preparing Financial Reports				
		Good (Scale 3-4)		Not Good (Scale 1-2)
Prepare Reports Yes	45	42%	12	11%
Finance No	22	21%	28	26%

According to the survey results, the biggest obstacle faced by almost 35% of respondents in preparing financial reports was time constraints. This time limitation is generally caused by respondents who are too busy with efforts to develop their business or because respondents have other jobs outside their business (for example as employees in a company) so they do not have time to prepare financial reports for their business. (Nurul Aisyah Rachmawati, Faculty of Economics and Business, Trilogi University Jakarta, Indonesia.)

4. CONCLUSION

Based on data and the results of interviews with several local MSMEs that are facing the problem of lack of funds to build new branches, we can compare three financing theories that may be relevant, namely internal financing, debt financing and equity financing.

Internal Financing (Internal Financing):

In some cases, MSMEs rely on internal financing as the main source of funding. They use their own business income to finance daily needs and save to raise additional capital. However, this may not be enough to finance larger business developments such as building new branches. The weakness of internal financing is the limited internal revenue capacity to meet larger expansion needs.

Debt Financing (Debt Financing):

Debt financing involves using loans or credit from third parties, such as banks or financial institutions, as a source of funding. In this case, MSMEs can consider applying for a loan to obtain the capital needed to build a new branch. The advantage of debt financing is the ability to obtain larger funds than internal financing, and usually with lower interest rates. However, MSMEs need to consider their ability to pay loan installments on time, so that it does not burden the company's finances.

Equity Financing (Equity Financing):

Equity financing involves selling part of a company's ownership to investors or business partners as a source of funding. In this case, MSMEs can look for investors who are interested in supporting business development by providing additional capital. The advantage of equity financing is that you can obtain larger funds without burdening the company with debt. However,

MSMEs must be ready to share company ownership and profits with investors. In comparing the three financing theories, each MSME must consider the circumstances and objectives of their business individually. Internal financing may be a suitable option if business expansion does not require significant funds. However, if larger funds are required, either debt financing or equity financing can be considered. The decision depends on the MSME's preferences and goals, as well as their ability to manage debt or desire to share ownership of the company with a third party.

It is important for MSMEs to carry out careful risk and financial analysis and consult with financial experts before deciding on the most suitable type of financing for their business development. The level of awareness of MSME actors in preparing financial reports is not only determined by awareness of the importance of these two reports, but is also determined by awareness of complying with SAK EMKM and tax regulations. In this study, MSME actors had a relatively low level of awareness. Even though MSME players are aware of the importance of financial and tax reports, this is not accompanied by awareness of complying with EMKM SAK and tax regulations. In this case, there are still many MSME players who do not prepare financial and tax reports for their businesses. The biggest obstacle faced by MSMEs in preparing financial reports is time constraints. MSMEs will experience so many benefits when preparing financial reports. Therefore, it would be good if MSMEs set aside some of their time to prepare financial reports for their business. Apart from that, the use of special applications related to financial reports can also be a solution to overcome the obstacles faced by MSME players. Meanwhile, the biggest obstacle faced by MSMEs in preparing tax reports is limited knowledge. This can be a concern for regulators (especially the DJP) to further promote tax socialization for MSME players. For MSME players, it is hoped that they can be more active in efforts to increase their tax knowledge so that they can fulfill their tax obligations correctly, completely and clearly. As regulated in Law Number 28 of 2007 concerning General Provisions and Tax Procedures, Taxpayers who do not report their taxes correctly, completely and clearly can be threatened with tax administration sanctions, in the form of interest or fines.

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