

IMPLEMENTATION OF ACCOUNTING STANDARDS FROM THE PERSPECTIVE OF MICRO, SMALL AND MEDIUM ENTERPRISES

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ABSTRAK

Penelitian ini mengkaji penerapan Standar Akuntansi Keuangan EMKM (SAK EMKM), dengan fokus pada kesenjangan dalam pelaporan keuangan UMKM dan tantangan yang dihadapi oleh UMKM. Metode deskriptif kualitatif digunakan untuk menganalisis kebiasaan pelaporan, kendala, dan pemahaman pelaku UMKM terhadap SAK EMKM. Hasil menunjukkan bahwa banyak pelaku UMKM belum mengadopsi SAK EMKM ini karena keterbatasan pengetahuan, sumber daya manusia, dan kesadaran akan pentingnya pelaporan yang akurat. Hal ini menghambat transparansi keuangan dan akses ke layanan finansial formal. Penelitian ini menyarankan intervensi seperti program pelatihan untuk meningkatkan kapasitas pelaporan keuangan, serta menekankan pentingnya kesadaran pelaku UMKM akan praktik akuntansi dan dukungan profesional untuk kepatuhan.

Kata Kunci: Laporan Keuangan, Pelaku UMKM, Standar Akuntansi Keuangan

ABSTRACT

This study explores the implementation of the Financial Accounting Standard of Micro, Small, and Medium Enterprises (FAS MSMEs), focusing on gaps in the financial reporting of MSMEs and the challenges faced by MSMEs. Qualitative descriptive methods analyze reporting habits, constraints, and understanding of MSME actors towards FAS MSME. The results show that many MSME actors have not adopted this standard due to limited knowledge, human resources, and awareness of the importance of accurate reporting. These conditions hinder financial transparency and access to formal financial services. This study suggests interventions such as training programs to improve financial reporting capacity and emphasizing the importance of MSME actors' awareness of accounting practices and professional support for compliance.

Keywords: Financial Reports, MSME owners, Financial Accounting Standards

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are important in strengthening the national and global economy, especially regarding job creation and income generation. In various regions, MSMEs face challenges in accessing financial resources, which significantly impact their growth and sustainability. Innovation is an important prerequisite for business success, especially for MSMEs adapting to complex and competitive market dynamics. Integrating innovation is important to maintain competitiveness (Ben Hamadi & Fournès, 2023).

A better understanding of accounting can significantly improve the performance of MSME businesses (Adela et al., 2024). Hasanah et al. (2018) advances in accounting technology, particularly with the use of software, have transformed accounting processes by speeding up transaction processing, reducing time-consuming manual work, and enabling quicker preparation of financial statements. Digital accounting has also made it easier to collect, analyze, and communicate financial information, supporting real-time decision-making (Bathla et al., 2024). The internet and technological developments have automated much of accounting work, reducing human error and fraud. In the national context, digital transformation in accounting is defined as the use of cloud storage and digital data for both online and offline purposes (Nguyen et al., 2024). Cloud accounting, for instance, is instrumental in helping MSMEs standardize investment decision-making, cut costs, and enhance the efficiency and accuracy of business decisions. By leveraging this technology, MSMEs can access reliable data to support financial decisions, improving the quality of their investment choices (Yu & Tang, 2020).

Indonesia has abundant natural resources, which makes Indonesian people take advantage of them by becoming entrepreneurs. MSMEs are a popular choice among Indonesian people because they require very little capital to start. This business can also be run by the owner himself, so it is not too dependent on the presence of employees. MSMEs have a significant role in the economy, especially in developing countries, so clear financial reporting principles are needed for these entities. The main purpose of financial reporting is to provide useful information for investors, lenders, and creditors in making decisions about the provision of resources (Wijekoon et al., 2024). Currently, most MSMEs do not have adequate accounting records, which makes it difficult to obtain accurate financial information, especially for external parties such as bank credit analysts in the credit decision-making process (Puspasari & Herwiyanti, 2021). Regardless of their size, small and medium enterprises have shown profitable potential. MSMEs in Indonesia are chosen because of their important role in the country's economic development (Ritchi et al., 2020).

MSMEs contribute significantly to the global economy, especially in terms of job creation and income generation. However, many MSMEs face difficulties in implementing adequate accounting systems due to resource constraints. The main challenge faced is the lack of awareness and understanding of the importance of accounting information, as well as a tendency to rely on more spontaneous and intuitive planning rather than formal and written planning (Kuttner et al., 2022).

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in strengthening the national economy, which led the Indonesian Institute of Accountants to introduce the Financial Accounting Standards for Entities Without Public Accountability in 2009. This standard was designed to support the growth of MSMEs in Indonesia. However, many MSMEs found it difficult to apply Financial Accounting Standards for Entities Without Public Accountability due to challenges in preparing financial statements in compliance with the standard. As a result, the IAI Financial Accounting Standards Board revised the accounting standards to better suit the specific needs of MSMEs. Banham & He (2014) showed that MSMEs rely heavily on accounting professionals for their accounting needs and other services such as business planning and human resource management. Although these services are important, many MSMEs experience cost constraints in accessing them. This finding highlights the important role of accountants in supporting MSMEs to meet accounting standards, as well as the challenges that MSMEs face in implementing these services.

Digital transformation has become a crucial factor in the accounting functions of SMEs, where technologies like data analytics and process automation significantly enhance analytical capabilities and business insight (Pan & Lee, 2020). However, SMEs face challenges in applying accounting standards due to their complexity and high compliance costs, especially burdensome for SMEs with limited resources (Singleton-Green, 2015). Managerial accounting is also critical in this context, providing information relevant to efficiency and strategic decision-making in SMEs. Methods like Activity-Based Costing (ABC) play a vital role in cost optimization and effective budgeting (Marius et al., 2012). There is an increasing need for an accounting system that is adaptable to the unique conditions of the local SME business environment, given the complexity and diverse market dynamics.

Under the Financial Accounting Standards for Micro, Small, and Medium Entities, MSME financial statements are considered fair if they meet criteria such as fair presentation, compliance with FAS MSME, regular reporting, consistent presentation, inclusion of comparative information, and proper identification of financial statements. FAS MSME became effective on January 1, 2018, serving as a guideline for MSMEs in preparing financial statements to provide accurate information on a company's financial position and performance.

According to data from the Pekanbaru City Cooperatives and MSMEs Service in 2018, the number of MSMEs recorded in Pekanbaru was 8.045, and in 2019 the number of MSMEs was 13.513 and in 2020 the number of MSMEs in Pekanbaru was 15.126, and in 2023 it will experience a high increase to 25.027 MSMEs. Based on data from the Service, it can be seen that Micro, Small, and Medium Enterprises in Pekanbaru City have increased from year to year. This will be followed by the growth of labor absorption which increases every year. Therefore, the government must continue to increase the growth of MSMEs, because with the increase in MSMEs, labor absorption will also increase. One factor that can increase the profitability of MSMEs is their ability to access formal financial sources, such as credit assistance from banks, State-Owned Enterprises (SOEs), and other financial institutions, which must be accompanied by their ability and knowledge to process the funds they get.

According to Statistics Indonesia, the economic index in Pekanbaru City from the period of Quarter 2 to 4 2020 continues to decline. The very high rate of economic decline occurred in Quarter 2, one of the causes of which was the change in the entire social order due to the Covid-19 pandemic, where people were restricted in all their activities, which also had a major impact on the economy in Pekanbaru City. The economic sector that was quite affected was the MSME sector, which provided low skills, knowledge, and good financial management for business actors, a lack of MSME competitiveness, and a lack of government attention such as helping with capital injection. However, from 2021 to 2022, the economy in Pekanbaru began to grow because community activities were no longer restricted and MSMEs could operate according to norms, from this, it can be seen that MSMEs greatly influence the economic growth of a country.

This study is unique compared to previous studies, where this study covers several MSMEs in Pekanbaru to get a more comprehensive picture of the implementation of FAS MSME, while previous studies generally only focus on one research object. The urgency of conducting this study is based on several important factors. First, MSMEs have a vital role in the Indonesian economy, especially in Pekanbaru, but many have not implemented appropriate accounting standards in their financial reporting. Second, a limited understanding of FAS MSME among MSME actors can hinder their access to funding from financial institutions and reduce their ability to make effective business decisions. Third, the digitalization era requires MSMEs to be more professional in managing their finances. This research is expected to provide several important contributions, namely: (1) providing a comprehensive picture of the level of implementation of FAS MSME in various MSME sectors in Pekanbaru, (2) identifying factors that support and hinder the implementation of FAS MSME, (3) providing practical recommendations for MSMEs actors in implementing FAS MSME, (4) providing input for policymakers in developing MSMEs mentoring programs, and (5) becoming a reference for further research in developing accounting systems that are more appropriate for MSMEs.

2. Literature Review

In the study by Putri & Nugroho (2020) on the implementation of the Financial Accounting Standard of Micro, Small and Medium Enterprises (FAS MSME) in MSME XYZ in Salatiga, it was stated that the MSME did not apply FAS MSME in its recording process. In the study conducted by Wahyuni & Sutomo (2021) on the benefits of implementing FAS MSME on increasing access to bank loans in Bogor Regency, the results of the study stated that the implementation of FAS MSME that had been achieved was still low. Uno & Kalangi (2019) analyzed the implementation of Financial Accounting Standards for Micro, Small, and Medium Entities (FAS MSME) at Rumah Karawo, a micro-enterprise in Gorontalo that has been operating for almost 5 years. Although it has the potential to produce appropriate financial reports, Rumah Karawo still uses a very simple recording method, only recording product sales without preparing formal financial reports. The main obstacle faced is the lack of understanding and adequate human resources regarding the importance of preparing financial reports.

Mutiah (2019) discusses the implementation of financial report preparation in Micro, Small, and Medium Enterprises (MSMEs) based on FAS MSME, focusing on MSME Silky Parijatah in Banyuwangi. The results of the study indicate that MSMEs face obstacles in managing financial reports, including limited thinking and human resources. The preparation of appropriate financial reports is expected to improve performance and access to funding for MSMEs, as well as provide a clear picture of the company's financial condition. Kirowati (2019) discussed the implementation of FAS MSME in the financial reports of MSMEs in Madiun City in the Industrial Revolution 4.0 era. The results show that most MSMEs have not yet implemented FAS MSME and do not understand the benefits of the application. Although the purpose of FAS MSME is to increase accountability and facilitate access to funding, many MSME actors face various obstacles in its implementation.

Various studies have highlighted the challenges faced by small and medium enterprises in accessing adequate financial resources. According to Abe et al. (2015), SMEs in the Asia-Pacific region face significant constraints in terms of financing, mainly due to the lack of developed equity markets and poor working capital management. This study underlines that access to finance is critical to support the survival and growth of SMEs. Factors such as information asymmetry between financial institutions and SMEs slow down the loan application and approval process. On the other hand, the government is expected not to directly provide financing, but rather to act as a facilitator to improve the financing environment for SMEs.

Another study by Dang-Duc (2011) examined the compliance of MSMEs in Vietnam with accounting standards. The study found that MSME compliance with accounting standards is still limited and is often driven only by legal obligations, rather than perceived benefits. Limited accounting knowledge and skills among MSMEs are a major barrier to the implementation of appropriate accounting standards. The study underlines the need for reforms in reporting standards tailored to the needs of MSMEs to reduce the reporting burden.

In addition, research on the role of accountants in assisting SMEs also found that in addition to providing reporting services, accountants can act as translators between SMEs and capital providers, such as banks. In some cases, accountants serve as a signal of SMEs' financial credibility to financial institutions, which increases the likelihood of SMEs gaining access to financing. However, as noted in several studies, the success of this accountant role is highly dependent on the resources that SMEs have, especially in terms of their ability to recruit high-quality accountants (Weigel & Hiebl, 2023).

Based on Government Regulation No 7 2021 Article 37, Micro, small, and medium enterprises carrying out their business activities must have a business license. In formulating a strategy for establishing a company and developing the first business, it is important to understand how to choose a business entity. There are legal entities, namely PT Perorangan, PT Persekutuan Modal, and cooperatives as well as business entities in the form of Civil Partnerships, CVs, or Firms. For companies in the form of legal entities, the legal subject is the legal entity, the company's assets are separate from the personal assets or managers. Meanwhile, the business entity that is the legal subject

is the person who is the manager. The company's assets are mixed with the personal assets of the managers.

The following is the classification of MSMEs according to Government Regulation No. 7 2021, a micro business is defined as a productive economic activity owned by an individual or business entity that meets certain criteria. The criteria for a micro business include a maximum net worth of fifty million rupiah, excluding the value of the building and land where the business operates. The annual income of the micro business does not exceed three hundred million rupiah. Small businesses are productive economic activities that stand alone, are owned by individuals or groups, and are not branches of large companies. Small businesses have a maximum net worth of five hundred million. The annual income of small businesses ranges from three hundred million rupiah to two billion five hundred million. Medium businesses are productive economic activities that do not function as branches or subsidiaries of large companies and can be directly or indirectly connected to small or large businesses. Medium-sized businesses are generally considered to be large businesses with net assets between five hundred million and ten billion, excluding buildings and land where the business is located. The annual income of medium-sized businesses ranges from two billion five hundred million to fifty billion.

The Financial Accounting Standards for Micro, Small, and Medium Enterprises (FAS MSME) were developed to support and simplify financial reporting for Micro, Small, and Medium Enterprises (MSMEs). Research has shown that many MSMEs struggle to properly implement the Financial Accounting Standards for Entities Without Public Accountability due to its complexity and inadequacy in addressing their specific financial reporting needs. These studies suggest creating simpler financial accounting standards tailored for MSMEs. Furthermore, it is anticipated that FAS MSME will assist these entities in adopting more comprehensive standards as their business size and transaction complexity grow.

Article 29, paragraph 1 of Law Number No. 1 2013 concerning Microfinance Institutions requires microfinance institutions to carry out and maintain financial records and/or bookkeeping in accordance with applicable FAS. To fulfill this, DSAK IAI has prepared FAS MSME which is consistent with the pillars of existing financial accounting standards, reflects the latest developments regarding business operations and transactions carried out by entities in general, balances accounting principles that are appropriate to the size, complexity, information needs of users of financial statements, and based on the principle of cost-effectiveness.

FAS MSME 2018 requires entities to meet all criteria for small, micro, and medium enterprises except for entities that have just been established for at least two consecutive years with the consideration that the fulfillment of the criteria is not temporary and that the entity does meet the criteria in accordance with the initial intention of the IAI DSAK in preparing the FAS MSME. This means that entities can apply the FAS MSME in the context of their first year's financial statements if all criteria for micro, small, and medium enterprises are fulfilled.

In the Financial Accounting Standards for Micro, Small, and Medium Enterprises, MSMEs are required to prepare a period-end position report, a profit and loss report for

the current period, and notes to the financial statements. The components of the FAS MSME financial statements do not include equity reports or cash flow reports, due to the limitations of report users, the relevance of the information produced, and considerations of ease in implementing the provisions of the FAS of MSME.

3. Research Method

The research uses qualitative descriptive, which involves collecting information in the form of documents, photographs, and non-numerical data. Qualitative research is a method that produces descriptive information in the form of written or spoken words from individuals and observed attitudes. The purpose of descriptive research is to provide a systematic, factual, and accurate picture of the reality and characteristics of a particular population or area (Moleong, 2018).

The location of this research is in several Micro, Small, and Medium Enterprises in Pekanbaru. Data sources in this study include behavior, speech, and necessary documents and data. The data consists of behavior and speech, both written and oral, as well as documentation in the form of images and statistics. This data source was obtained from micro, small, and medium enterprises that were the subjects of the research. According to Sugiyono (2018), data collection can be done using primary and secondary sources. Data from primary sources are obtained directly by data collectors, while data from secondary sources are not obtained directly, for example through documents.

In this study, researchers used three methods to collect information, namely observation, interviews, and documentation. In the observation stage, researchers will conduct direct observations of micro, small, and medium enterprises that are the subjects of the study by visiting the business location. Meanwhile, an interview is an interaction between two or more people to exchange data and information through questions and answer sessions, which allows for a deeper understanding of a topic. At this stage, the researcher will ask several questions related to the financial reports and financial accounting standards made by MSMEs during their business and what obstacles are faced by business actors if there are obstacles. The last is documentation, the results of research from observations or interviews are more actual if supported by documents related to the research.

Data analysis in this study adopted the Miles and Huberman model which is divided into three steps. The first step is data reduction, which is done through summarization, selection of main issues, and emphasis on the implementation of FAS MSME in Pekanbaru MSMEs. At this stage, data from interviews, observations, and documentation will be filtered to obtain information that is relevant to the focus of the study. Second, Data presentation is done by providing a brief explanation, presenting charts, showing relationships between categories, and using flow diagrams to facilitate understanding of the implementation of FAS MSME. Third, drawing conclusions and verification is carried out by analyzing strong and supporting evidence at the data collection stage to produce credible conclusions about the implementation of FAS MSME in Pekanbaru MSMEs.

Table 1. The Data Information

No	Data Source	Informants	Data Collection Technique
1	Observation	MSMEs in Pekanbaru with a number of micro 5 informants, small 3 informants, and medium 2 informants	Direct observation at MSME locations
2	Interview	Owners or managers of MSMEs in Pekanbaru	Interviews with MSME actors
3	Documentation	Documentation of transactions and Financial Reports of MSMEs Micro 5 informants, Small 3 informants, Medium 2 informants, with types of culinary, fashion, necessities, cake ingredient shops	Documentation of reports and notes

Source: Processed Data, 2024

The technique we use in this study is triangulation of data sources, which aims to explore certain informal truths through various methods and sources of data acquisition. In addition to interviews and observations, researchers can also utilize direct observation, archives, official records, handwriting, and pictures or photos. Each of these methods produces different evidence or data, which then provides various insights into the phenomenon being studied. By collecting these various views, we can expand our knowledge and achieve reliable truth.

4. Results and Discussion

In this section, the research findings on the implementation of financial accounting standards and accounting practices in EMKM in Pekanbaru will be presented and discussed. For ethical reasons, the names of EMKM are disguised as MSME KM, MSME BD, MSME LV, and MSME JB. MSME KM located in Pasar Wisata, Senapelan District, sells a variety of souvenir foods. Based on the results of interviews with the shop owner, it can be concluded that the shop has not made a financial report, even a simple report. The reason the owner did not make a financial report was because he felt he did not need the report yet and there were no human resources who had competence in accounting or finance, while the shop already had three branches with 18 employees. The researcher tried to offer to help make a financial report, but the shop owner refused the offer. MSME is located on Teratai Street, Sukajadi District, and is an MSME engaged in the service sector. Based on the results of interviews with shop employees, it can be concluded that the shop has made a complete financial report.

MSME BD located on Manunggal Street, Tuah Madani District is an MSME that sells necessities. Based on the results of interviews with the shop owner, it can be concluded that the shop has made a simple financial report by recording transactions of goods sold every day in a notebook. The shop owner cannot make a complete financial

report because he does not understand how to make it and there are no employees who can help do it.

MSME LV is located on Merpati Street, Marpoyan Damai District, and sells various foods and drinks. Based on the results of the interview with the shop owner, it can be concluded that the shop has made a simple financial report, namely a cash inflow report and a cash outflow report via computer using the Microsoft Excel application. The reason the owner only made a simple financial report was that he could not make a complete financial report and did not have the human resources to make the report. In 2022, MSME LV made a complete financial report using the Z application online, but because the cost of the application is quite large, namely IDR 8,000,000 / year, MSME LV chose not to renew the subscription to use the Z application. During the interview, we explained free applications that can be accessed from either a cellphone or computer such as SIAPIK created by Bank Indonesia as used in the study (Habibi & Supriatna, 2021).

MSME JB, located on Samarinda Street, Bukitraya District, sells various pastries in various shapes and flavors. Based on interviews with shop owners, it is known that they only make simple financial reports in the form of cash inflow and cash outflow reports in the cash book. The owner admitted that the reason behind making this simple report was the inability to prepare a complete financial report and the lack of human resources who could handle the preparation of the report. From the results of observations, interviews, and documentation, researchers found that MSME JB has not implemented recording and reporting in accordance with applicable accounting standards. One of the main obstacles is the lack of knowledge of business actors regarding online accounting records, which results in financial recording and reporting not being able to be carried out according to standards. Therefore, researchers compiled the MSME JB financial report based on the recording of cash inflow and outflow transactions provided by the owner. A summary of the research findings is presented in Table 2.

The implementation of Financial Accounting Standards for Micro, Small, and Medium Entities (FAS MSME) in MSMEs in Pekanbaru shows quite significant variations depending on the scale of the business. For medium-scale MSMEs, their financial reports are generally more accurate and in accordance with the established standards. On the other hand, micro and small-scale MSMEs still have difficulty in preparing financial reports that meet the standards, both in terms of accuracy and compliance. This can be seen from the habits of medium and small-scale MSMEs who consistently make monthly financial reports, while micro-scale MSMEs only make simple reports that record expenses and income. These limitations indicate that micro and small-scale MSMEs face many challenges in implementing FAS MSME.

Table 2. Classification of Research Data Themes and Categories

No	Category	Theme	Source
1.	Implementation of Financial Accounting Standards MSME	<p><i>Financial Reporting Practices</i></p> <ul style="list-style-type: none"> ▪ Financial Report Accuracy: MSME financial reports were found to have diverse results, this is seen from the match between documents and interview results. However, for Medium scale, financial reports were found to be good and accurate, for Micro and small the reports produced are still far from accurate. ▪ Level of compliance with FAS standards. The medium scale has complied with FAS MSME and made 5 financial reports. While the micro and small scale have not complied with FAS MSME and only made 2 or 3 financial reports. ▪ Frequency and Regularity: The medium and small scale have been regular in making financial reports with a frequency of every month. While the micro-scale only has expenditure and income reports 	<ul style="list-style-type: none"> ▪ In-depth Interview ▪ Theoretical Triangulation: Using multiple theories, such as financial management and compliance theories, can add layers to the analysis, providing broader insights into the data collected.
2.	Implementation Challenges	<p><i>Constraints in Implementing Standards</i></p> <ul style="list-style-type: none"> ▪ Lack of Resources: for medium-scale, there are no resource challenges because they have been able to hire professional accountants. While for micro and small they have this challenge because they cannot afford to hire accountants. ▪ Limited Knowledge: Lack of staff and owners' understanding of FAS MSME standards. 	<ul style="list-style-type: none"> ▪ Direct Observation and Documents ▪ Theoretical Triangulation: Using multiple theories, such as financial management and compliance theories, can add layers to the analysis, providing broader insights into the data collected.
3.	Understanding Financial Accounting Standards MSME	<p><i>Knowledge and Education</i></p> <ul style="list-style-type: none"> ▪ Training Access and Quality: From the respondents, it was found that the Pekanbaru city government has not provided 	<ul style="list-style-type: none"> ▪ Training Documents

No	Category	Theme	Source
		<p>specific training for training programs related to FAS MSME.</p> <ul style="list-style-type: none"> ▪ Educational Support: lecturers and financial institutions have provided training support to MSMEs but not repeatedly. 	
4.	Impact on Business	<p><i>Financial Performance</i></p> <ul style="list-style-type: none"> ▪ Investor Confidence: MSMEs that have adopted FAS Standards make it easier to find investors for their business. ▪ Revenue Growth: when adopting FAS Standards, MSMEs can budget their business finances better and more accurately 	<ul style="list-style-type: none"> ▪ Report Document Analysis
5.	Comparison with General Financial Accounting Standards	<p><i>Financial Reporting Analysis</i></p> <ul style="list-style-type: none"> ▪ Key Differences in Reporting: Adopting the FAS MSME is easier for MSMEs to implement than using the General FAS because the FAS MSME only requires 3 financial reports while the General FAS requires 5 reports and the FAS report is simpler. 	<ul style="list-style-type: none"> ▪ Financial Report Documents

Source: Processed Data, 2024

The biggest challenge for micro and small-scale MSMEs lies in limited resources, both in terms of finance and understanding of applicable accounting standards. Many of them have difficulty recruiting professional accountants who can assist in preparing financial reports in accordance with FAS MSME. In addition, the lack of understanding of this standard is also a major obstacle to effective implementation. The Pekanbaru City Government itself has not provided a special training program for MSMEs related to the FAS MSME, although there is training support from financial and educational institutions. Unfortunately, the existing training is not carried out regularly or continuously, which makes it difficult for MSMEs to deepen their understanding.

However, despite these challenges, the implementation of the FAS MSME for MSMEs that have succeeded in doing so has proven to have a positive impact on their business. MSMEs that can implement the FAS MSME properly tend to be more attractive to investors because the financial reports are more transparent and trustworthy. In addition, they can also manage their finances better, which in turn can increase their revenue growth. This also shows that the implementation of simple but appropriate standards can encourage better financial reporting practices, as well as increase the attractiveness of investment for MSMEs.

The comparison between the FAS MSME and the General FAS also shows the advantages of the FAS MSME for MSMEs. The FAS MSME is much more practical to implement because it only requires three financial reports (Financial Position Statement, Profit and Loss Statement, and Notes to the Financial Statements), while the General FAS requires five reports. This makes the FAS MSME easier to adopt by MSMEs, which generally have limited resources and capacity to prepare more complex financial reports.

This finding is in line with the results of research by Luchindawati et al. (2021), which shows that batik MSME owners in Madiun City are also not ready to implement FAS MSMEs in preparing their financial reports. The study identified a lack of accounting knowledge among MSME owners, limited human resources managing business finances, and implementation constraints caused by a lack of funds and education. This is also in line with research by Andari et al. (2022) which found that the quality of human resources, business size, and the level of socialization of accounting standards affect the readiness of MSMEs in preparing financial reports in accordance with standards.

Based on interviews with several MSME actors in Pekanbaru, many said that they did not know about FAS MSMEs or did not even apply the standards at all. Some of them also do not make complete financial reports, only recording expenses and income simply. The FAS for MSMEs implemented since 2018 includes three main financial reports, namely the Financial Position Report, Profit and Loss Report, and Notes to the Financial Statements. The recording process carried out by MSME JB begins with collecting transaction evidence from income and expenses, which are then recorded in the cash book. After that, they compare the amount of money coming in and going out to ensure the accuracy of the recording. This process reflects the importance of a deeper understanding of accounting standards that can help MSMEs produce better financial reports in accordance with existing regulations.

5. Conclusions, Implications, and Limitations

This study concludes that many MSMEs in Pekanbaru have not been able to prepare financial reports and run the accounting cycle properly, and have not implemented the Financial Accounting Standards for Micro, Small, and Medium Enterprises (FAS MSME). MSME actors experience difficulties presenting financial reports due to a lack of awareness and understanding of FAS MSME. Several obstacles in implementing FAS MSME include limited knowledge of the owner as the person responsible for finance, and the absence of human resources who are experts in accounting to provide training. This situation causes transactions that are not properly recorded, hinders transparent and accountable financial management, and limits MSME access to formal financial services. The implication of this study is the need for appropriate interventions, such as training and mentoring programs specifically

designed to improve the financial reporting capacity of MSMEs. Thus, it is hoped that MSMEs can more easily access financial resources, increase transparency, and support the sustainability of their businesses.

However, this study also has limitations that need to be considered. The limited focus on several MSMEs in Pekanbaru may not represent all MSMEs in Indonesia, so the results cannot be fully generalized. In addition, the data collection method that relies on interviews has the potential to introduce subjective bias from respondents, which can affect the accuracy of the information. This limitation opens up opportunities for a broader future research agenda, covering MSMEs from various regions and sectors, to obtain a more comprehensive picture of the implementation of FAS MSME. Further research is recommended to examine in more depth the perceptions of owners and accountants towards financial information in the MSME sector in Indonesia, considering the local context and differences between small and medium MSMEs, as suggested by Wijekoon et al. (2024). This study is expected to provide more comprehensive insights into the needs and use of financial information and contribute to developing a relevant financial reporting framework for MSMEs in developing countries. In addition, referring to the research of Chand et al. (2015), an initial assessment of the costs and benefits of implementing International Financial Reporting Standards (IFRS) for MSMEs is also important, given the challenges often faced in countries with limited professional capacity. Better guidelines are needed to ensure consistency in interpreting and applying these standards across jurisdictions, which will ultimately improve the quality of MSME financial reporting and support global accounting convergence.

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