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**FACTORS AFFECTING UNDERSTANDIBILITY OF  
MICRO, SMALL, AND MEDIUM ENTERPRISES IN  
PREPARATION OF FINANCIAL STATEMENT BASED  
ON SAK ETAP IN PALEMBANG**

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**Abstract**

The role of MSMEs (Micro, Small and Medium Enterprises) are to improve the economy and reduce the unemployment in Indonesia is widely significant regarding to the growth of MSME growth in every year. However, MSMEs often find some problem which obstruct its business growth especially about the funding. The phenomena that exist today, many MSMEs only using funds/private capital to develop their business with reason their business is still in early growth. In fact, instead in early growth, MSMEs must do the innovation in order to be more competitive in the marketplace. In 2015, Indonesia was starting to face Asean Economic Community (AEC) where as the market competition will be more competitive for MSMEs. Therefore, to provide private capital also required other capital (loans) from third parties to fund the business growth of MSMEs. The reason why MSMEs do not make loans from other parties is about the unavailability of the financial statements based on SAK ETAP which can facilitate to access bank lending. Unavailability of financial statements in accordance with SAK ETAP on MSMEs has several factors, namely, costs are relatively expensive to pay for experts in the field of accounting, a lack of understanding in presenting financial statement based on SAK ETAP and the perceptions of MSMEs that considers the financial statements are not urgency to do. This research aims to obtain empirical evidences whether the giving of information and socialization, educational background, level of education, size of enterprises and long effect on the understanding of MSMEs in presenting financial statements based on SAK ETAP on MSMEs. The object in this study is MSMEs in Palembang city with number of respondents of 40 MSMEs with characteristics of small and medium

enterprises. Data retrieval in this study using a questionnaire which is then processed using logistic regression analysis. The results of the study prove that giving information and socialization, educational background, level of education and business size do not affect on the understanding of MSMEs in presenting financial statements based on the SAK ETAP on MSMEs. Only long effect affect on the understandability of MESMEs in presenting the financial statement.

**Keywords:** SAK ETAP on MSMEs, Financial Statements, Understandability of MSMEs.

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## **INTRODUCTION**

Micro, Small, Medium Enterprises (MSMEs) is the independent economic activities, which are managed by the group of people in society. Nation's economy growth are mostly affected by MSMEs by unemployment absorption, and Gross Domestic Products (GDP) contribution. In 2016, the amount of MSMEs in Indonesia is about 57,9 millions units. From that amount, approximately of 99,8% is MSMEs, which absorb about 97% in total of employees in Indonesia. The small enterprises such as cooperation and MSMEs have significantly contributed to GDP for about 56% (Ministry of Cooperation and SMEs of Indonesia, 2016). In ASEAN, more than 96% of the business units are SMEs, which is contributed for 30-50%. In other words, MSMEs could be called as the backbone of nation's economy. In the developing of MSMEs, there are a lot of problems, but the most concerning problem is funding capital.

The development of MSMEs in Palembang is significant because Palembang has many unit business sectors which is spread in 16 sub district across Palembang Region. For now, there is 124 MSMEs registered and joined Cooperation Agency. The table 1.1 shows the amount of MSMEs from diverse sector in Palembang City with 16 districts and total labors in 2016.

**Table 1.1 The numbers of MSME by subdistrict in 2016**

Subdistricts	Business Unit	Number of Employees
1. Ilir Barat II	11	145
2. Gandus	-	-
3. Seberang Ulu I	1	3
4. Kertapati	2	14
5. Seberang Ulu II	1	7
6. Plaju	2	19
7. Ilir Barat I	10	124
8. Bukit Kecil	3	18
9. Ilir Timur I	27	183
10. Kemuning	5	29
11. Ilir Timur II	17	134
12. Kalidoni	3	33
13. Sako	4	52
14. Sematang Borang	13	70
15. Sukrami	15	389
16. Alang-Alang Lebar	10	81
Total	124	1301

Source of data: Cooperation Agency in Palembang

Since 2015, Indonesia was starting to face Asean Economic Community (AEC), where the market competition will be more competitive for MSMEs. If MSMEs do not do the innovation and develop their business, there will be many MSMEs which couldn't continue their business. Mostly the growth of the business is considerable much funding. Most MSMEs only use the private capital to run their business, and there is no separation between personal funds and their enterprises' funds.. In fact, to develop a business to be better requires a large enough funds and the separation between personal funds with enterprise's funds. Therefore, not only personal capital is required but also funds derived from loans of third parties such as banks, KUR and . other kind of institutions. However, the existing phenomenon, many MSMEs today whic only use personal funds in running their business. Although fornow, there are so many programs conducted by the government in providing capital, such as People's Business Credit (KUR) that can be obtained at certain banks such as Bank Sumel Babel and other State Bank for MSMEs. According to Bank Indonesia Representative Office VII of South Sumatra, the banking credit for MSMEs in South Sumatera has only reached 17.14 percent and in Palembang city at just about 6 percent in 2016. The reasons of MSMEs do not use fund or capital from third parties are there business still in early age and with reason their business is still in early growth and the scale of their business. (1-3 years). Another reason is the complexity of the requirements provided by the lender. One of the requirements is the preparation of financial statements of MSMEs. However, many MSMEs do not provide or prepare financial statements in their business because MSMEs are too focused on the production process and operations, so

they do not pay attention to the the financial process including recodring the transaction (Putra and Kurniawati, 2012).

In order to access the bank funding with ease, so MSMEs should present their the financial statement. However, the situation shows that most of MSMEs do not present their financial statement to KUR's requirements (in this case is the banks) so that it makes the banks is very careful to lend the funding capital to MSMEs (Baas and Schrooten, 2006 in Rudiantoro and Siregar, 2011).

In Indonesia, there has been established a regulation that requires small businesses to perform a good accounting practice which is Government Regulation of the Republic of Indonesia No. 17 of 2013 about the implementation of Law No. 20 of 2008 on Micro, Small and Medium Enterprises. Although the regulation of accounting practice is well explained, but in reality there are still many MSMEs who do not make accounting records in accordance with the standards. To overcome this problem Indonesia Financial Accounting Standards Board (DSAK) in 2009 has published Financial Accounting Standard for Non-Public Accountability Entitie (SAK ETAP) which is effective on January 1, 2011. SAK ETAP is the simplification of General Indonesia Financial Accounting Standard (PSAK) so SAK ETAP is easier to understand than PSAK. Teak (2009) in Rudiantoro and Siregar (2011) stated that the most of MSMEs only record the amount of funds received and the costs incurred, the outflow of goods and the amount of debt or accounts receivable. Those bookkeeping process do not require to access the bankable status. But SAK ETAP is also not easily accepted by MSMEs because there are still many MSMEs which do not apply the transaction record based on the standard. There are several problem that caused the problem (Hutagaol, 2012) which are low level of education, lack of knowledge and skills in accounting, not having experts who can do the transaction record according to the standard, the perception that bookkeeping is not important in the business, and the perception that accounting is too complicated to implement so that there is no separation between the personal funds and enterprise funds used in business processes. Therefore, they do not want to apply bookkeeping process. Hopefully, if there is accounting training about transaction record, and understanding about SAK ETAP, in the future, MSMEs can present a good financial statement, so it will ease MSMEs in accessing banks' loan and other loans to develop their business. On October 24, 2016, the Institute of Indonesia Chartered Accountants (IAI) has authorized the Financial Accounting Standards (SAK) for Micro Small and Medium Enterprises (SAK-EMKM) which is effective January 1, 2018.

The research discusses about the factors that affecting the understandability of MSMEs in preparation of financial statement based on SAK ETAP. Those factors which will be discussed are information dissemination, and socialization, the educational background, level of education, and the business age, and size of the business. The object in this research is MSME in Palembang.

According to the explanation above, so the researchers can formulate the problem, which is what the information dissemination and socialization,

educational background, level of education, the business age, and business size have affected the understandability of MSMEs in preparation of the financial statement in Palembang City.

## **LITERATURE REVIEW**

### **Micro, Small, and Medium Enterprises**

UMKM is one of the entities without public accountability which basically requires a financial statement to expand its business. To distinguish the types of micro, small and medium enterprises, Law Number 20 Year of 2008 about micro, small and medium enterprises distinguishes based on the following characters:

- a. Micro Business is business enterprises owned by individual and / or individual business entity fulfilling the criteria of Micro Enterprises as regulated in this Law, namely:
  1. Having a maximum net turnover of IDR 30,000,000 (thirty millions rupiahs) per year.
  2. Have maximum assets (net worth) of IDR 50,000,000 (fifty millionS rupiahs) per year.
- b. Small Business is a stand-alone productive economic enterprise, conducted by an individual or business entity that is not a subsidiary or not a branch of a company owned, controlled, or becomes part of the direct or indirect business of medium or large-scale enterprises which fulfill the criteria of Small Business as referred to in this Law, namely:
  1. Having a net worth of more than IDR 50,000,000 (fifty millions rupiahs) to Rp500,000,000 (five hundred million rupiah) annually, excludes land and building for establishing business.
  2. Sales of more than IDR 300,000,000 (three hundred millions rupiahs) up to Rp2,500,000,000 (two billion five hundred million rupiah) in each year.
- c. Medium Enterprise is a stand-alone productive economic enterprise, conducted by an individual or business entity that is not a subsidiary or a branch of a company owned, controlled, or becomes part directly or indirectly with a Small Business or a large business with a net worth or annual sales proceeds as regulated in this Law, namely:
  1. Having a net worth of more than IDR 500,000,000 (five hundred millions rupiahs) up to Rp10,000,000,000 (ten billions rupiah) annually and excluding land and building of business premises.
  2. Having annual sales of more than Rp2,500,000,000 (two billion five hundred millions rupiahs) up to Rp50,000,000,000 (fifty billions rupiahs).

The characteristics of MSMEs are stand-alone management, self-provided capital, local marketing area, small corporate assets, and limited number of employees. The principle of MSME implementation is togetherness, democratic economy, independence, progress balance, sustainability, efficiency of justice, and national economic unity. According to the Central Bureau of Statistics

(BPS), small business is a business that has employees of 5 people to 19 people and medium business is a business that has a employees of 20 people up to 99 people.

### **MSME Financial Accounting Standard and Its Implementation**

Financial Accounting Standard Board (DSAK) has published a financial accounting standard which can facilitate Micro Small Medium Enterprise (MSME) in compiling a financial statement and has been effectively used on 1st Januari 2011 which is SAK ETAP. In 26th October 2016, Institute of Indonesia Chartered Accountants (IAI) has validated Financial Accounting Standard (SAK) for Micro Small Medium Entity (SAK-EMKM) which is effective on 1st Januari 2018. This standard is expected can help MSMEs in compiling financial statement which can help enterprise development process. However, the implementation of SAK ETAP isn't easy if it's not socialized and disseminated to MSME. Information dissemination and socialization itself is a method to introduce and help MSME in knowing and understanding about SAK ETAP. Beside that, the convenience in understanding SAK ETAP depends on education background of MSME subject. This education background is a major which taken by MSMEs. Not only major but also the level of education of MSMEs subject can effect MSMEs understanding level. Wahyono (2012) stated that level of education is an educational stage which must take based on development level from the learners, the goals to be achieved, and the ability to be developed.

The education can be obtained through formal, non-formal, and informal path. Beside educational terms, the MSME understanding level to SAK ETAP also can be affected by the length of the business itself. Based on Kusnia (2013), the age of business is a time that needed by company to live which shows that company exist and able to compete in market so it can maintain their business, also achieve the goals. Ulum (2009) in Kusnia (2013) stated the age of business is counted since the date of Initial Public Offering (IPO) until the date of annual report. Another factor such the size of business also can affect the high understanding of MSMEs to SAK ETAP. Tuti (2014) stated only the age of business can affect the high understanding of MSMEs to present financial statement based on SAK ETAP, while the educational background and level of education have no effect significantly in understanding MSMEs to the preparation of financial statement based on SAK ETAP. The size of business is a scale which shows how big an organization or company that can be measured using some ways. Based on Long enecker (2001) in Kusnia (2013), the ways which can be used to measure a company i.e. seen from the total amount of employees, sales volume and assets value from the company. In Law No. 20 of 2008 stated that the size of business also can be classified into some categories, such micro enterprise, small enterprise, medium enterprise and big enterprise.

## **METHODS**

### **Research Design**

Based on the problem and the hypotheses development, so this research is classified into causal research with data collection techniques are directly distributed by questionnaire to respondent.

### **Variable Identification, Operational Definition and Variable Measurement**

The understanding of MSME to the financial statement of SAK ETAP, will support implementation process of financial statement based on SAK ETAP which can help MSME in developing their business (Rudiantoro and Siregar, 2011). The improvement of MSMEs' understanding can be done with information dissemination and socialization about SAK ETAP (Rudiantoro and Siregar, 2011). Information dissemination and socialization are the effective ways in improving MSME understanding. While educational background is what distinguishes the low level of understanding that MSME entrepreneurs have. MSME entrepreneurs with the educational background besides economic or accounting tends to be longer in understanding the process of financial statement preparation based on SAK ETAP than MSME entrepreneurs with educational background of economics or accounting (Rudiantoro and Siregar, 2011). The level of education in this research is a level that someone take as needed and the goals to be achieved (Wahyono, 2012). The length of business, usually called as business life, is the amount of time to be taken by enterprise in running their business, to demonstrate their competitive ability (Kusnia, 2013). While the size of business is a scale indicates how big the company itself, seen from the amount of employees, sales volume, and assets value owned (Longenecker, 2001 in Kusnia, 2013).

### **Type and Source of Data**

The type of data in this research is primary data. The data is obtained directly from distributing questionnaire to the respondent in Palembang.

### **Population, Sample, and Sampling Techniques**

The population in this research is MSMEs in Palembang with sample of 40 respondent using convenience sampling.

### **Data Analysis Techniques**

Statistical test used in this research is biner logistic regression. Biner variable is a nominal type data with only 2 criteria, for example 1 for the answer Yes and 0 for the answer No from respondents. Logistic regression also can be used for nominal category more than 2 by doing dummy. Based on the development of hypotheses, the equation can be formulated as follows:

$$\text{Ln} \left( \frac{P}{1-P} \right) = \beta_0 + \beta_1 \text{IS} + \beta_2 \text{LT} + \beta_3 \text{PT} + \beta_4 \text{LU} + \beta_5 \text{SZ}$$

Where  $p$  is a possibility that  $Y=1$  and IS, BL, PT, LU, and SZ are independent variable, while  $\beta$  is regression coefficient.

Explanation:

IS = Information Dissemination and Socialization

LT = Educational Background

PT = Level of education

LU = The Length of Business

SZ = The Size of Business

## FINDINGS

From frequency test statistics, is known that the amount of respondent which don't follow socialization or information dissemination is 35% (15 people) and which follow is 65% (25 people). While the amount of respondent which non-Economic/Accounting educational background is 70%. It means that most of the respondents are not coming from Economic/Accounting educational background. In level of education variable will be given 2 values, where respondent with level of education of Elementary School and Junior High School will be rated 1 while Senior High School, Diploma 3, and Degree will be rated 1. With assumptions the major of Economic/Accounting and non Economic/Accounting is started since Senior High School. As well as the length of business and the size of business, MSME with length  $\leq 3$  years will be rated 0 (8 MSME) and MSME with length  $\geq 4$  years will be rated 1 (32 MSME). While MSME which have assets  $< \text{Rp}100,000,000$  per year will be rated 0 with the amount of respondents are 27 MSME and MSME which have assets  $\text{Rp}100,000,000 - \text{Rp}2,500,000,000$  per year will be rated 1 with the amount of respondents are 13 MSME.

## Data Analysis

Based on statistical results with logistic regression analysis, then obtained the value of Chi-square ( is 38.444 with p-value 0.100 which means with a level of trust 95% ( $\alpha = 0,05$ ), the variable of information dissemination and socialization, educational background, level of education, the length of business, and the size of business are not all affect MSME understanding level to SAK ETAP. It's because p-value from omnibus test is bigger than 0.05. Meanwhile from Hosmer and Lemeshow test is obtained results of Hosmer and Goodness-of-fit statistic value of 7,000 with probability significance 0.700 which value is far above 0.05. It shows that model is able to predict an observation value or in other words the model is acceptable.

While the result from statistical classification test shows the ability of regression model in predicting research probability of 92.5%. this value is bigger than 50% which can be concluded that the power of regression model is huge. The ability



of model in explaining the variation of the dependent variable can be showed on Nagelkerke's R Square value of 0.835 which means all independent variable are able to explain the diversity that exists of 83.5%. While 16.5% is affected by other variables that are not discussed in this research. Based on regression coefficient test which shows the effect or relation between independent variables to the dependent variable.

**Table 1. Statistical Results of Regression Coefficient Test**

		<b>Variables in the Equation</b>					
		<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Step 1 <sup>a</sup>	x1	38.279	13359.706	.000	1	.998	4.212E16
	x2	4.191	1.501	7.799	1	.005	66.076
	x3	-2.455	1.783	1.895	1	.169	.086
	x4	-18.576	9758.909	.000	1	.998	.000
	x5	1.352	1.759	.591	1	.442	3.864
	Constant	-19.674	9123.894	.000	1	.998	.000

a. Variable(s) entered on step 1: x1, x2, x3, x4, x5.

Source: Processed Data (2016)

The result shows independent variable of information dissemination and socialization, level of education, the length of business, and the size of business have no effect to MSME understanding in preparing financial statement based on SAK ETAP. While educational background has a significant positive effect to the MSME understanding in preparing financial statement based on SAK ETAP.

**The Effect of Information Dissemination and Socialization to the MSME Understanding in Preparing Financial Statement Based on SAK ETAP**

Based on regression test results in table 1 shows significance level of information dissemination and socialization is 0.998 where the value more than significance level of 5%. It can be concluded that information dissemination and socialization have no effect to the MSME understanding in preparing financial statement based on SAK ETAP. Although most of them have been joining the activities of information dissemination and socialization in preparing financial statement based on SAK ETAP, many of them have been joining socialization or accounting training like the preparation of simple financial statements. Indirectly, the preparation of financial statements that is taught, is a financial statements based on SAK ETAP. Surely, this research isn't in line with the invention by Rudiantoro and Siregar (2011) which said that the information dissemination and socialization can improve the MSME understanding to SAK ETAP.

**The Effect of Education Background on MSMEs' Understanding in The Preparation of Financial Statements based on SAK ETAP**

Table 1 shows the significance value of the educational background is 0.005. This value is less than (<) significance level 5%, which means that educational background has a significant effect on understanding MSME in preparing financial statements based on SAK ETAP. This result is in accordance with research of Rudiantoro and Siregar (2011) and Sari (2011) who stated that the background of economic / accounting education owned by MSMEs will increase the understanding of MSMEs on SAK ETAP. Because individual with economic / accounting education background will be easier to understand the financial statements of SAK ETAP. The education background is significance because many of MSMEs which currently have education background of Economics/Accounting. Moreover, many MSMEs who attend training/seminars related to Economics/Accounting, so as to improve their understanding of the preparation of good financial statements (accord with standard). Therefore, the background of education has a significant effect on the level of understanding of MSMEs in preparing financial statements based on SAK ETAP.

#### **The Effect of Level of Education on MSMEs' Understanding in The Preparation of Financial Statements based on SAK ETAP**

The significance of education level in table 1 is 0.169 where the value is greater than the level of significance of 5%. It means that the level of MSMEs education does not affect MSMEs understanding in preparing the financial statements based on SAK ETAP. This condition is not in accordance with the results of research conducted by Rudiantoro and Siregar (2011) and Sari (2011) stated that the higher level of education pursued by the actors of MSMEs, the understanding of MSMEs on SAK ETAP will increase. Because individuals with higher levels of education will be easier understanding new things. Hasibuan (2003) in Sari (2011) stated that education is an indicator that reflects an individual's ability to be able to complete a job. The level of education will affect his understandability. However, the situation which occurs in MSMEs at this time is level of education did not affect perception or view of MSMEs to financial statement. The MSMEs whose education is elementary/junior high school but have a willingness to learn and increase their understanding of SAK ETAP, they can understand more the financial statements based on SAK ETAP. Currently, there is a lot of non-formal education/training/socialization and the like associated with the accounting can be followed by MSMEs who want to increase their understanding of SAK ETAP. Thus, the level of education owned by MSMEs does not affect the understanding of MSMEs in preparing financial statements based on SAK ETAP.

#### **The Effect of Business Length on MSMEs' Understanding in The Preparation of Financial Statements based on SAK ETAP**

Table 1 shows the significance value of business period is 0.998. This value is greater than the level of significance of 5% which means that the period of MSMEs business has no significant effect on the understanding of MSMEs in presenting financial statements based on SAK ETAP. The results of this study is not accordance with the findings in Purnamasari (2009) which states that

along with the length of a business stand, then the experience owned by the business will increase. Where it will affect MSMEs in addressing the importance of financial statements in accordance with existing standards. The results of this study is also not in line with the results of research conducted by Rudiantoro and Siregar (2011) stated that the company (MSME) which has long standing not necessarily have a better understanding of financial statement based on SAK ETAP. Because at the time of new business will encourage someone to more actively seek information and ways to expand their business, and the results of research Tuti (2014) states that the period of MSMEs business will have a significant effect on understanding MSMEs in preparing financial statements based on SAK ETAP, because period of MSMEs business can show the experiences of MSMEs during its business life.

### **The Effect of Business Size on MSMEs' Understandability in The Preparation of Financial Statements based on SAK ETAP**

Table 1 shows the significance value of MSMEs business size is 0.442 where the value is greater than 5% significance level. It can be concluded that the size of the business does not affect the understanding of MSMEs in preparing financial statements based on SAK ETAP, because the size of a business does not guarantee understanding of MSMEs against SAK ETAP would be better. This finding is not in line with the findings of research which is conducted by Rudiantoro and Siregar (2011) which states that the increasing growth of MSMEs hence the need for financial statements that match the accounting standards will be higher. Therefore, MSMEs will increase their understanding of SAK ETAP. However, the current condition of MSMEs is many MSMEs that already use the financial statements even though just a simple bookkeeping. They feel that financial statements are important to help the development of their business.

The results of this research are described and can refer to the used literature. In the discussion section, the researcher interpret the results of research and compare with the previous research results. The research findings are presented systematically and thoroughly as well as conceptual discussions conducted by the researchers.

### **CONCLUSION**

The results of the study showed that not all independent variables significantly affect the dependent variable. Only businesses length that have a significant effect on understanding MSMEs in preparing financial statements based on SAK ETAP. While the educational background and level of education has no significant effect on the dependent variable. Although MSMEs' management do not come from educational background economics/accounting or even just have a low education, but they have ever attended training or socialization and related to accounting. The training indirectly taught them the process of preparing financial statements based on SAK ETAP. This activity empowers the MSMEs to understand the preparation of financial statements based on SAK

ETAP. Other independent variables such as the provision of information, socialization and size of business do not affect the understanding of MSMEs in preparing financial statements based on SAK ETAP. This is because most of the respondents have never received socialization / information about SAK ETAP. From the questionnaire data, only 7 respondents from 40 respondents have ever got the information about SAK ETAP. In addition, the size of the business also does not affect the understanding of MSMEs. MSMEs also have the initiative or willingness to provide financial reports in accordance with SAK ETAP for their internal and external needs such as credit applications. This is one of factors that drives MSMEs to improve their understanding of financial statements based SAK ETAP.

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