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## IMPROVING TRANSPARENCY AND ACCOUNTABILITY OF MSME FINANCIAL STATEMENTS BY USING ACCRUAL METHOD

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**Risnarningsih,**  
Tribhuwana Tunggaladewi  
University of Malang.  
[ningsihrisna@yahoo.com](mailto:ningsihrisna@yahoo.com)

**Sjheny Tanuwijaya,**  
Tribhuwana Tunggaladewi  
University of Malang.

**Nur Ida Iriani,**  
Tribhuwana Tunggaladewi  
University of Malang.

### ABSTRACT

Many Micro, Small, and Medium Enterprises (MSMEs) are still carrying out a simple accounting record and have not implemented accrual basis method. It is expected that in the future all MSMEs can make more transparency and accountability report by using accrual method so it can assist MSMEs in applying credit to banks or other investors to increase the business capital. This study was conducted in Malang Regency, Batu City, and Malang City. This study used descriptive qualitative method. The data collection techniques were done by interview and documentation with sampling technique using purposive sampling and snowball sampling. The collected data will be analyzed by interactive analysis method including data reduction, data presentation, and data verification or interpretation. The results showed that the owners of SMEs in managing their finances use simple accounting by using accrual method so that the financial statements produced more accurate than if the owners of MSMEs use cash method. The owners of SMEs do not need to make complete financial statements, they may use three types of financial statements, namely: income statement, balance sheet, and cash flow statement. The income statement is used to find out how much the profit or loss of the MSMEs, the balance sheet is used to find out the assets, liabilities, equity, and cash flow statement is used to find out the changes occurring during the period of operating, investing, and financing activities. These three types of financial statements have already been used by MSME owners as one of the requirements to obtain credit from banks or other investors.

**KEYWORDS :** Financial Statements, MSMEs, Accruals

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### INTRODUCTION

All this time MSME still has many limitations and constraints, especially constraints between MSME and bank as a credit distributor. Business feasibility, financial aspect, marketing aspect, and human resource aspect (labor) are the MSME problems which have been felt by the bank (Bank Indonesia, 2005). The absence of mindset similarity between the bank requirements which must be met by MSME, including the availability of financial statements and business development plan, are constraints causing the minimal access to MSME finance. Whereas statement is very useful in helping MSME for decision making in the small business management.

## Improving Transparency and Accountability of MSME ...

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Good fund management is a key factor which can lead to the success or failure of MSME. Although there are many other factors affecting MSME, the problems in MSME usually arise due to failure to manage the funds. Accounting makes MSME can obtain various financial information which is important in running its business.

By sufficient accounting, MSME can meet the requirements in proposing credit in the form of financial statements, evaluating performance, knowing financial position, and calculating taxes. (Warsono, 2010). Financial problems related to MSME are slightly different from large-scale enterprise. Large-scale enterprise generally uses accrual method in accounting records, whereas MSME generally uses cash basis method recognizing income and expense when cash is received or issued.

Accrual basis accounting means economic transactions and other events are recognized and recorded at the time of the transaction, regardless of when the cash or cash equivalent is received or paid. The adoption of accrual basis accounting will improve transparency and accountability of financial management and follow international best practices tailored to the conditions in Indonesia.

The study done by Risnaningsih and Tanuwidjaja (2015) show that all respondents in SME of Batik Malangan in Bandungrejosari Village Malang has not recorded all transactions related to finance. The respondents only record every order that come and when the order will be taken. All respondents have not yet done the separation of micro business finance and personal finance. All respondents have all the evidences for each transaction occurred but have not made financial statements in accordance with Financial Accounting Standards. This shows that all respondents know the benefit of the transaction evidences as a record of the occurrence of transactions and evidences if in the future there is a record error. Accounting record in this SME is only done simply and use the cash basis method.

The study done by Risnaningsih and Suhendri (2015) mention that micro enterprise of Dhi Sablon & Printing and The Joker's Sablon & Offset in running their business have not made financial statements. Therefore, these two micro enterprises are difficult in applying for credit to bank. All this time, the both micro enterprises only do simple record only and the method used is the cash basis method. Thus, these micro enterprises are given training and assistance in making financial statements, to make it easier in applying for credit. The problems faced by these two micro businesses are also common in other MSMEs. MSME is still doing the accounting record in a simple method and have not implemented an accrual basis method. By using accrual basis accounting method, it is expected that MSME can improve the transparency and accountability of its financial statements so that it can help MSME in applying credit to bank.

## METHODS

The locations of the study were conducted in Malang Regency, Malang City, and Batu City. The selection of these three areas based on consideration that these three areas have a lot of business generated by MSMEs. The sources of data used in this study are primary data and secondary data. This study used purposive sampling technique which can be continued by Snowball sampling technique. The data collection techniques used were in-depth interviews, observation, and document / review of documents. Purposive sampling is done with the tendency of the researcher to select informants who are considered to know the problem information deeply and can be trusted to become a solid data source (Sutopo, 2006).

The analysis method used in this study was by using interactive analysis model. According to Miles & Huberman (1992), this interactive analysis model has three analysis

components namely data reduction, data display, and conclusion drawing / verification, the activities were done in an interactive form with data collection process as a cycle process.

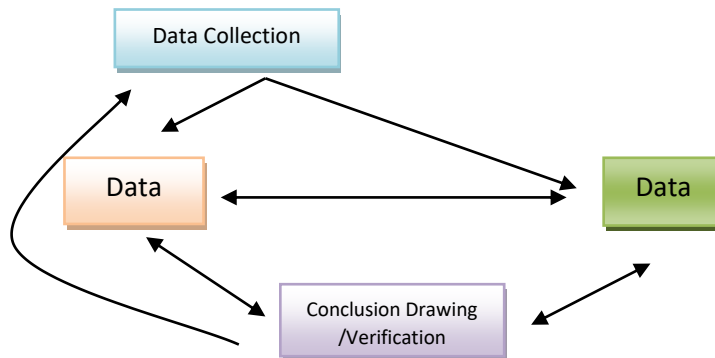


Figure 1. Chart of Data Analysis Components

## RESULTS

(Based on the observations made by the researcher with the Department of Cooperatives and SMEs in Malang Raya there were many existing MSMEs had not done accrual basis accounting reports. MSME owners considered that accounting is not so important to their business. Most MSME owners focused more on developing their business through marketing, finding suitable suppliers, providing good service, but they never knew in detail the cash flow. MSME owners in running their business only used their economic instincts. If they were successful in selling a lot of products, it means that they got profit, if not, it means loss. When they were asked how much the profit or loss, how much the bad debts, the MSME owners could only answer based on estimation only. To be able to overcome that problem, this is where the accounting role is needed.

If MSME owners apply accounting in their business, this will make it easier to evaluate the performance of their business. This evaluation can be a guide for the MSME owners to improve and develop their business. For the MSME owners, it is hard to run the accounting process in their business. This accounting process requires considerable time and cost for the MSME owners, especially when MSME owners do not have sufficient insight into accounting. Actually MSME owners do not need to use a complicated accounting process, they just simply use a simple accounting record. By using this simple accounting, MSME owners are expected to make financial statements. This MSME financial statements can be used by the MSME owners as one of the requirements to get credit from banks and other investors.

According to the Indonesian Accountant Institute (2009) there are five complete financial statements: 1) Balance Sheet 2) Income Statement 3) Statement of Changes in equity 4) Cash Flows Statement of and 5) Notes to financial statement. The following chart is the accrual basis accounting method for MSMEs in order to improve the transparency and accountability of financial statements.

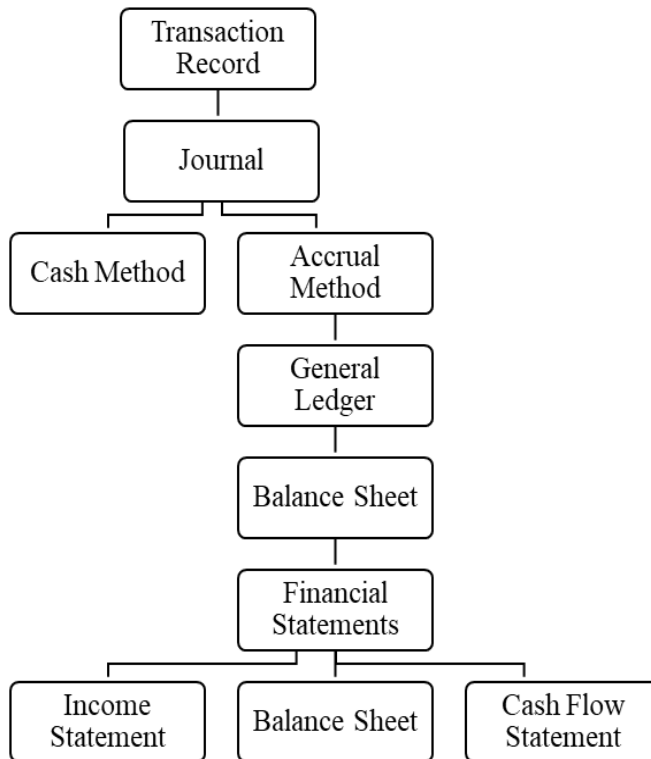


Figure 2. Accrual Basis Accounting Method at MSME

Based on the figure above, it can be concluded that the MSME owners in managing their finances can use simple method i.e. by using accrual method so that the financial statements produced can be more accurate than using cash method. MSME owners do not need to create complete financial statements. MSMEs simply use three types of financial statements, namely: income statement, balance sheet, and cash flow statement. The income statement is used to find out what the profit or loss of the MSMEs, the balance sheet is used to know the assets, liabilities, equity, and cash flow statement is used to know the changes occurring during the period of operating, investing, and financing activities. These three types of financial statements can already be used by MSME owners as one of the requirements to get credit from banks or other investors.

## CONCLUSION

Based on the results of the study done, it can be concluded that: MSMEs have many constraints in managing their finances, one of which is educational background. Therefore, MSMEs feel difficult in making financial statements. Thus, MSMEs can use accrual basis accounting method in improving the transparency and accountability of the financial statements in order to be used to get credit from banks or other investors.

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