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RESEARCH ARTICLE

ACCOUNTING INFORMATION OF MICRO SMALL MEDIUM ENTERPRISES IN INDONESIA: PROPRIETARY THEORY PERSPECTIVE.

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Abstract

The observed phenomenon showed that Micro Small Medium Enterprises (MSME) in Indonesia did not perform financial accounting standard completely, but until now MSME still exists and even forms the backbone of Indonesian economy. The purpose of this study is to describe accounting forms in MSME, how they perform recording and use accounting information in decision making. This is a qualitative study approach. The subject of the study is the proprietor and manager of an MSME in Indonesia. The purpose of this study is to understand in detail the MSME owner characteristics in creating and using accounting information to obtain relevant information to create financial accounting standard for MSME. From investigation, MSME in Indonesia performs accounting recording according to Proprietary Theory and not Entity Theory.

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Introduction:-

Micro Small Medium Enterprise (MSME) is the backbone of Indonesian economy. MSME was proven to be resilient to economic crisis in 1998, 2008, and 2011. While large companies collapsed, MSME demonstrated survivability. MSME has relatively better chance to survive than large companies because it does not really depend on large capital or loan in foreign currencies. Consequently, during fluctuation in currency exchange rates, large companies are generally the most vulnerable to the crisis impact. MSME forms 99.99% of total business in Indonesia with 56.54 units and contributes 60% of Gross Domestic Product (GDP) (www.depkop.go.id).

Above-mentioned data show the crucial role of MSME in Indonesian economy. Nevertheless, MSME business does not always run smoothly with many obstacles and challenges, both internally and externally. According to **Rudiantoro and Siregar (2012)**, MSME often faces difficulties in obtaining loan from bank or other financial institutions due to inability to fulfill administrative and technical requirements, one of which is to provide a proper financial report. Only a fraction of MSMEs are able to provide a financial report. Business management of MSME is mainly carried out manually in a traditional way, particularly in its financial management. The owner often does not separate his company business account from his personal household account.

MSME proprietor who does not separate the company account from his personal account shows conformity to Proprietary Theory. Proprietary Theory is different from Entity Theory which considers an entity to be separated and different from the person who provides capital from that entity (**Belkaoui, 2000**). In other words, business entity, and not its proprietor, becomes the center of accounting interest. Business entity has its own resources and is responsible to both proprietor's claim and creditor's claim.

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MSME is one of the entities that face the dilemma associated with public accountability, particularly on the entity's financial statements. Currently, Indonesia has implemented accounting standard for MSME which is Financial Accounting Standard for Entities Without Public Accountability (SAK ETAP), effective from January 1, 2011. However, SAK ETAP has not been successfully adopted with many MSMEs having not followed the guidelines. SAK ETAP is thought to be not accommodating to the owners who do not separate business and personal capital. The observed phenomenon is MSME still survive and continue to expand even without implementing SAK ETAP standard.

Currently, Indonesian Institute of Accountants (IAI) is formulating an exposure draft of Financial Accounting Standard for Small Medium Enterprise (SAK UKM) to replace SAK ETAP which is considered not suitable for MSME conditions. SAK UKM is a much simpler financial accounting standard. It is expected that MSME owners and managers will not face difficulties in implementing SAK UKM.

This study seeks to be a source of information of accounting forms and accounting information roles in MSME based on Proprietary Theory. The aim is to provide relevant information to all parties that authorized to compile and set the accounting standard for SME.

Literature Review:-

Micro Small and Medium Enterprise:-

According to World Bank (**World Bank, 2015**), MSME can be grouped into three categories: 1. Micro Enterprise (number of employees < 10 people); 2. Small Enterprise (number of employees < 30 people); and 3. Medium Enterprise (number of employees < 300 people).

According to Legislation of Indonesia (Undang-Undang Republik Indonesia) Number 20 Year 2008 about MSME, an MSME is a small company which is owned and managed by an individual or small group of individuals with certain amount of assets and income:

1. Micro Enterprise is a company with net assets up to Rp. 50.000.000,00 (fifty million rupiahs) or annual sales revenue up to Rp. 300.000.000,00 (three hundred million rupiahs).
2. Small Enterprise is a company with net assets more than Rp. 50.000.000,00 (fifty million rupiahs) and up to Rp. 500.000.000,00 (five hundred million rupiahs) or annual sales revenue more than Rp. 300.000.000,00 (three hundred million rupiahs) and up to Rp. 2.500.000.000,00 (two billion and five hundred million rupiahs).
3. Medium Enterprise is a company with net assets more than Rp. 500.000.000,00 (five hundred million rupiahs) and up to Rp. 10.000.000.000,00 (ten billion rupiahs), not including lands and buildings; or annual sales revenue more than Rp. 2.500.000.000,00 (two billion five hundred million rupiahs) and up to Rp. 50.000.000.000,00 (fifty billion rupiahs).

Proprietary theory:-

According to Proprietary Theory, entities are agent, representatives or arrangement through which individual entrepreneurs or stakeholders operate (Hendriksen, 1977). The main aim of Proprietary Theory is to determine and analyze the net worth of proprietor, with accounting equation:

Assets – Liabilities = Proprietor's Equity

Based on this equation, proprietors own both assets and liabilities. The proprietary theory is considered asset centered and balance-sheet oriented when liabilities are considered as negative assets. To measure the proprietary wealth, assets are valued and balance sheets are prepared. Proprietorship not resulting from proprietary investments will add into the revenue while capital withdrawals will add into expenses. Addition to the capital by increase in proprietor's wealth is net income, while losses, debt interest, income taxes, and dividends are expenses.

Methodology:-

This study used qualitative approach by comparing known theories to facts in order to understand accounting forms that exist in MSME. The data analysis was carried out based on Proprietary Theory.

The object of this study is an MSME in Indonesia that manufactures batik clothes. The informant is Mrs Ambar, the proprietor and manager of the MSME. Data was obtained by recording every interview session by a recorder, which was then transcribed. The MSME accounting records were also utilized to support this study.

Data collection was accomplished by direct observation to the MSME location, continued by unstructured interview with the informant to investigate the accounting forms that exist in her enterprise. The MSME accounting records were also employed to support the analysis.

Results and Discussion:-

The followings are the findings of the investigation:

The accounting record was simple and carried out manually:-

Mrs. Ambar as the proprietor of the MSME performed accounting recording process but it was not consistent with the current accounting standards. She only recorded the product sales transaction and limited to sales transaction to different cities which involved third party as distributor (to record Account Receivable). Mrs. Ambar felt that there is no need to properly record all transactions as she had full control of the company. Besides, she admitted the reluctance to record all the transactions. There was no specifically assigned accountant to perform accounting recording with the proprietor doing all recordings herself.

Out-of-town receivable records of Mrs. Ambar looked very detailed. The sales notes were filed and recapitulated so that in the event of any missing note, the receivable can still be traced. Mrs. Ambar's receivable recapitulation looked very similar to account receivable subsidiary ledger in accounting. She created a number of receivables recapitulation books based on sales area.

Income was not calculated as revenue minus expenses:-

When questioned about income, Mrs. Ambar as the MSME proprietor mentioned that income is the increase of assets such as: cars, motorcycles, houses, not the net amount of revenue deducted by expenses. This perspective was formed because the enterprise was owned and managed by the proprietor herself and consequently all wealth is the proprietor's claim. Because there is no other party that have claim to the company, proprietor is free to define income according to her perspective. MSME proprietor's perspective that considers an income as increase in assets is aligned to inflow concepts revenue: Stated in terms of asset the revenue of the enterprise in presented, finally, by the flow of fund from the customer or patrons in exchange for the product of the business, either commodities or service (Paton and Littleton, 1940)

Accounting that relies on memory:-

Not every accounting transaction was recorded by MSME proprietor. Proprietor only recorded receivable but when questioned about payable she mentioned that she relies on memory. In the interview, proprietor stated that she did not record any payable, including loan instalment and salary expense. She argued that loan and salary are regular expenses that will not escape her memory.

The payment of loan instalment and salary which happens continuously makes the proprietor easily recall the amount she needs to pay. On the other hand, recording on paper would only create additional trouble to look at the record and prolong the time needed to make payment.

Accounting recording was only a formality:-

When applying for bank loan, as an external party, bank will request accounting information to evaluate the risk of granting the credit. According to MSME proprietor, when she submitted capital loan application to the bank, she was requested to attach financial report of her company. The financial report that is required is not the accounting recording of the proprietor but the Profit Loss Statement with the format provided by the bank. The proprietor was directed to fill in the template by estimating the numbers. The proprietor was also requested to provide basic materials buying notes and last three-month bank statements. The bank also did a survey to the company and conducted interview.

Based on this experience, proprietor believes that financial report is just a formality to obtain capital loan from creditors, i.e. bank in this case. The figures that the proprietor submitted in the financial report form from the bank were also not real numbers but just estimations. Hence, proprietor considers that financial report is not a critical element in conducting her business because she can just estimate the numbers to obtain bank loan.

Based on those four findings, it can be concluded that MSME proprietor is not performing accounting recording for transactions that only involve herself. However, for transactions that involve out-of-town distributors, proprietor will record the transactions in details. Due to focus on operational activities, MSME proprietor opts out from doing complete accounting recording and relies more on memory. This is in agreement with Proprietary Theory which is a theory about an entity or enterprise that is owned and managed by the same person (Hendriksen, 1977), entity is part

of the individual and hence the manager does not feel obliged to be accountable to the owner. This is different from large enterprise which has separated person as proprietor and manager.

The MSME proprietor considers that doing financial report as per current standard is just adding unnecessary burden in conducting the business. The simplicity in the recording process shapes the proprietor perspective to consider income not to be the amount of money obtained from the difference of revenue and expense, but as the increase of assets.

The challenges faced by MSME in doing accounting recordings are : 1) insufficient time to perform the recording, due to almost all the time was focused on operations, 2) proprietor is very sure on her memory and hence feel reluctant to record recurring transactions, 3) since the same individual acts as both manager and owner, there is no accountability and no need was seen to have financial report.

The challenge of formulating SAK UKM is how to create a simple accounting standard that is easy to implement and does not take too much time as the MSME proprietor focuses more on the business operational. In addition, SAK UKM needs to consider proprietary theory which is still widely adopted by MSME proprietors.

The success of implementing an accounting standard does not only depend on IAI but it requires joint efforts from all elements. Characteristics of MSME proprietors in Indonesia are the lack of knowledge about accounting recording and inability to utilize technology effectively. These should be the main focus of Indonesian Government to educate MSME proprietors to be able to compete with foreign SMEs. MSME proprietors should also motivate themselves to perform proper accounting record, either manually or using simple software to catch up with foreign SMEs.

Conclusion:-

For enterprise with single ownership, Proprietary Theory seems to dominate in Indonesia. MSME proprietors which do not separate the company finance from personal finance show agreement with Proprietary Theory. Lack of finance segregation leads the MSME proprietor (the respondent) in this study to not perform standard accounting recording. This is the challenge faced in trying to set an accounting standard for SME in Indonesia. SAK UKM which is currently being drafted, should be simple and easy to implement without taking too much time of the MSME proprietor.

This study has several limitations, mainly it was only conducted in one MSME and hence there is still limited information on the practice of accounting recording in MSME in Indonesia. Further study also should include quantitative aspect of MSME accounting recording to produce more generalized results.

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