

# USE OF ACCOUNTING INFORMATION IN IMPROVING THE SMEs PERFORMANCE IN INDONESIA

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## ABSTRACT

Financial statements are information that can be used as a tool for decision making for information users. The use of accounting information will increase if the business owner knows the need for that information in making business decisions. Financial statement information has an important role to achieve business success. This research was conducted at MSMEs in Indonesia. The main obstacle that is often experienced by MSMEs is capital, many government policies to facilitate special loans to MSMEs, but many MSMEs cannot touch the offer because MSMEs have not been able to compile financial reports properly. The purpose of this study is to find out how the use of accounting information in improving the performance of MSMEs and the obstacles faced by MSMEs in Indonesia in improving performance. The research method is qualitative. Data collection was carried out by in-depth interviews and focus group discussions (FGD), which included informants as SMEs, Cooperatives and SMEs, MSME experts. Data analysis was performed with qualitative analysis, the analysis phase carried out was data collection analysis, data reduction, data display, and conclusion. The results of this study indicate that MSMEs in Indonesia especially in the city of Medan have not used accounting information as decision making in order to improve their business performance. Constraints faced by MSMEs in Indonesia generally are the problems of human resources, capital, limited raw materials such as threads that have to be imported from abroad and cause the cost of production to increase, while also constraints in the preparation of financial statements.

## Keywords

*Accounting Information; Human resources; Performance*

## 1. INTRODUCTION

Financial statements are information that can be used as a tool for decision making for users of information. Financial reports contain data that illustrates the financial condition of a company, parties with an interest in the development of a company can find out the financial condition and financial position of the company from the financial statements compiled and presented

by the company [4]. The use of accounting information will increase if the business owner knows the information needs in business decision making (Whetyningtyas, 2016). Financial statement information has an important role to achieve business success, including for small businesses [17].

Micro, Small and Medium Enterprises (MSMEs) are the largest economic community in Indonesia and are one of the factors of economic growth after the economic crisis, besides that MSMEs open up considerable employment opportunities [15]. UMKM is expected to improve Indonesia's economy. at present, given that most of the existing businesses are SMEs. Small and medium businesses still dominate the economy in various countries, especially ASEAN countries, especially in Indonesia. The development of SMEs lately has been very rapid, home-based culinary businesses are thriving with progress both carried out by housewives and young people (milineal), in addition to the culinary business of making t-shirt designs, ethnic ethnic designs and shoe businesses as well is becoming a trend at the moment.

According to the Indonesian Ministry of Cooperatives and SMEs in 2017 MSMEs have a share of around 99.99% (62.9 million units) of the total number of business operators in Indonesia, while large businesses are only 0.01% or around 5400 units, in terms of business employment large only absorbs about 3% of the total national workforce, while MSME absorbs around 97% of the total workforce. The National Development Planning Agency, the Central Statistics Agency, and the United Nation Population Fund, predict the number of micro, small and medium enterprises (MSMEs) in Indonesia in 2018 of 58.97 million people or around 22.25% of the predicted population of Indonesia reached 265 million in 2018.

The development of small and medium enterprises (SMEs) with the spirit of increasing economic independence has had a positive impact on the strengthening of the local economy [12], but the rapid growth of the UMKM unit has not contributed greatly to economic growth in Indonesia. factors, including the availability of capital for MSMEs to develop their businesses The main obstacle often experienced by MSMEs is capital, many government policies to facilitate special loans to MSMEs,

but many MSMEs cannot touch the offer because MSMEs do not consider the report important finance [9].

The problem that arises is the lack of ability in managing business finances, so that MSMEs tend not to separate business and personal assets, this results in not properly recorded profits and business development because business assets are always used for personal gain [12]. Constrained funding to develop its business results in MSME businesses not developing optimally. This study aims to find out how the use of accounting information in improving the performance of MSMEs in Indonesia and what obstacles are faced by MSME actors in improving MSME performance.

## 2. THEORETICAL REVIEW

### 2.1 Use of Accounting Information

Accounting information is used as a basis for business decision making, which is very useful in planning, managing and evaluating businesses, the existence of accounting information for managing business activities can be done well and will increase business success [18]. Accounting information can be a reliable basis for economic decision making in the management of small businesses, including market development decisions, pricing and others [17]. Financial statements are accounting information that can be used by information users as a decision-making tool. The financial statements that have been prepared can be used to measure, evaluate, and evaluate the condition and potential of the company [2]. The use of accounting information is the process, method, act of using and using accounting information for economic decision making in determining choices among alternative actions [18].

### 2.2 Company performance

Performance is a result of work achieved by a person or organization in carrying out the tasks assigned to it based on skill, experience and seriousness and time [5]. According to Ranto performance is a series of management activities that provide an overview of the extent to which results have been achieved in carrying out their duties and responsibilities in public accountability in the form of both successes and deficiencies [13], then Srimindarti says that performance is a periodic determination of operational effectiveness organization, parts of the organization and its employees based on targets, standards and criteria that have been previously set, in other words performance is the result or level of success that has been achieved by the organization in running its business based on the targets set [16]. Meanwhile, according to Karim performance includes several related variables and cannot be separated: input, behavior (process), output, and outcome (added value or impact) [8].

Company performance shows the company's ability to provide benefits from assets, equity, and debt. Company performance is the company's work performance. One measure of company performance is Return on Equity (ROE). ROE is an important measure of company profitability that measures returns for shareholders [7]. According to Munizu the success rate of MSME performance is reflected in several indicators of evaluating the success of a business[10], namely:

- a. The level of sales growth / sales turnover is increasing
- b. Increased capital / financial growth rates
- c. High employment growth rate
- d. Broad market growth rates
- e. The rate of profit / profit growth continues to increase

Research in connection with the use of accounting information, the application in improving business success has been carried out by previous researchers. Adisetiawan, examines the Perception of Small and Medium Business Owners (SMEs) Against Financial Statements, the results show that the smooth flow of financial accounting information from small and medium-sized companies is very useful to know how the company's business development [2], capital structure and how much profit the company has gained in a certain period, while Wibowo examined the effect of the use of accounting information on the success of Small and Medium Enterprises, the results showed that with accounting information, all business activities can be managed properly, so as to support business success [18].

## 3. RESEARCH METHODS

### 3.1 Data Collection and Analysis Techniques

Data collection in this study was carried out by means of interviews and Focus Group Discussions (FGD). Interviews and FGDs were conducted on small business actors in the cities of Medan and West Sumatra who had assets of more than 50 million - 500 million and turnover of more than 300 million - 2.5 billion. As for the informants / informants in this study are: SMEs (6 people), the cooperative and MSMEs (1 person), DEKRANASDA administrators (1 person), and UMKM experts from academics (1 person). After conducting interviews and FGDs against Indonesian SMEs.

Data analysis conducted in this study is a qualitative method. The stages of analysis conducted are data collection, data reduction, data display, and conclusion.

### 3.2 Operationalization of Variables

The variable used in this study is the use of accounting information. The use of accounting information is the process, method, act of using and using accounting information for economic decision making in determining choices among alternative actions [18], measuring the use of accounting information is identifying costs, calculating production costs, profits, earnings reports loss, statement of financial position, statement of changes in capital and statement of cash flows.

## 4. Results and Discussion

### 4.1 Results

#### 4.1.1 Use of Accounting Information in Improving MSME Performance in Indonesia

Accounting information is one of the right tools in decision making. For business actors it is better to use accounting information in conducting their business, in order to determine the cost of goods manufactured and the cost of goods sold, and to be able to determine the right selling price. In general, SMEs in Indonesia, especially in the city of Medan have not done a good bookkeeping and do not have financial reports. As stated

by one of the officials in the Ministry of Industry and Trade of North Sumatra Province and Experts (Academics):

"The use of financial accounting in Indonesia at the medium MSME level mostly applies financial reports, whereas for small and medium MSMEs it seldom applies financial record keeping". This is in line with what was conveyed by Prof. Dr. Rita Dalimunthe as an UMKM expert and academic: "The use of financial reports is still rare and it should be for this understanding that MSMEs are the responsibility of the government in this case the OJK to make SMEs aware of the importance of using financial reports. Where there are 3 important things in the financial statements, namely for oneself so that business going forward, to join with partners and for banks".

SMEs in Indonesia determine the selling price with an estimated percentage of the costs incurred to produce an item. This is as conveyed by Ms. Sinaga, the UMKM Songket weaver from Medan: "The way we determine the selling price is by counting the thread used, calculating the wages used and the profit taken about 20%", a similar statement was expressed by Mr. Eki Harjoni the UMKM actor embroidery and Kerancang Eki Kreasi originating from Solok, West Sumatra: "I only use estimates, that is, what should be considered is the quality of the fabric or materials used, wages for embroidery, and also yarn plus shrinkage."

Calculation of the cost of production is usually calculated based on raw materials and other supplementary materials used plus labor costs, but does not include salary costs for himself. SMEs also still mix business finance with personal finance, so business growth is unclear. This was stated by UMKM Batik Sumatra:

"Our business is only a small business and for the recording problem we only do it in general. We are having a hard time because the money for the company is joining private money so to count the profits, it's just overwhelmed to sort it out. A similar sentiment was also conveyed by the UMKM Songket Weaving Medan "I really hope there is training on accounting that is simple and easy to understand, so that we can sort out finance for companies with personal finance"

One of the reasons for not needing to compile financial statements is because they have their own business, their own capital and profits from sales are also for themselves, so the MSMEs do not feel the need to prepare financial reports, as revealed by Mrs. Fifin "Kriken" Potato Chips businessman: "I am not a worker but I am the owner, why does it have to be counted? because it comes in and out of my wallet too. Initially I only thought of that. but after talking - I want to know more "

Another reason for MSME actors not compiling financial reports is because they do not understand financial reporting. This was conveyed by the owner of Sumatran batik, the husband of Mrs. Nurita Gustiwi: "Lack of knowledge or training in accounting information, I have never studied accounting so I don't understand it, but, we have received training in accounting itself from the department, but at the time when very limited training, so, lacking in understanding. Besides that, we also feel that it is not appropriate to use accounting information because our business is only a small business and for recording issues we only do it in general "

Furthermore, Sinaga's MSME actor Songket Weaving Medan said: "As a businessman we should make costs to pay ourselves, sometimes I also don't know because of the lack of things about accounting itself. If I myself in terms of recording, all I need to know is how much income and expenditure, I really hope there is training in accounting that is simple and easy to understand ". A similar sentiment was also conveyed by MSME Liza Mangrove: "We from the mangroves themselves have recorded and booked and we have received training, where in the training we were taught simple bookkeeping methods, such as, how much capital, how much money came in, how much money came out, and how much the benefits we get but for the accounting details we don't know yet, we hope that bookkeeping training can be carried out in stages. The same thing was expressed by MSME Olivia Handmade: "I am experiencing very difficulties in terms of recording or bookkeeping, and therefore requested to make training for SMEs"

#### *4.1.2. Obstacles faced by MSME practitioners in improving MSME performance*

Many constraints faced by MSME actors in improving MSME performance. For example in SMEs engaged in the textile sector in this case the weaving business, an obstacle that is often faced is raw materials that must be imported from other regions. This is in line with what was conveyed by the Secretary of the Provsu National Crafts Council: "In the weaving business, often a problem is the availability of yarn, where the yarn must be imported from West Java, and after tracing it turns out that West Java Imports Yarns obtained from India, so that businesses / penennun have difficulty in terms of sales due to large production costs, it will produce an expensive sale value so that it has difficulty. but in terms of quality and product modes that exist in North Sumatra are no less competitive, because the product can compete with other products. And in the North Sumatra Batik that is experiencing a problem that is where the batik makers have difficulty finding a distributor who is close, therefore it is necessary to have a supplier in an area.

Other obstacles are also faced by MSME actors such as limited capital, competitors, human resources and are less able to prepare financial reports. This was conveyed by Ms. Sinaga, a UMKM Tenun Songket Medan actor: "The obstacle in improving business success is the limited human resources who are skilled in producing beautiful weaving, other SME competitors, to handle competitors, I strengthen service to customers, limitations capital and less able to prepare financial statements for business activities ". This is in line with what was conveyed by Rahmah's mother MSME Liza Mangrove: "The obstacle is that we still have limited human resources, capital, still need workshops, more extensive land and constraints from ourselves to have the attitude of courage in expanding this batik business". Furthermore, the obstacle faced by Mrs. Fifin as the MSME potato chipper "Kriken" is the limitation of appropriate raw materials, "the obstacle that I often face is the raw material of potatoes with the required size is difficult to find".

## **4.2 Discussion**

From the information obtained from MSME actors in Indonesia, especially in Medan and West Sumatra, we can know that MSME actors have not used accounting information to improve

the success of their businesses, MSMEs have recorded business transactions only on revenues and expenditures. UMKM actors have not separated personal finances and business finances, this is due to their lack of understanding in recording accounting properly, MSME actors also have not allocated salary costs to themselves either as workers or as managers in the company. Limited knowledge in terms of recording accounting properly, resulting in information about how much profit and capital increase is actually not known correctly. MSMEs think that if materials can be purchased, labor salaries can be paid and there is still left over for household needs indicating that the company has made a profit.

The constraints faced by SMEs are the limitations of human resources in terms of expertise, both expertise in the field of production such as weavers whose numbers are increasingly decreasing, this can occur because people's interest and desire to weave has decreased, and this will be a threat to the sustainability of the culture and characteristics of an area. In addition to the limitations of human resources in terms of expertise in the field of production, there are also limitations in the ability to prepare financial reports, so that the SMEs are not able to compile their business financial statements. Another obstacle is the lack of capital in developing a business. This is certainly related to the ability to prepare financial reports, because to get additional capital, one of which is making loans to banks, and usually the bank will ask for financial statements as one of the requirements. Another obstacle is the limitation of raw materials that must be imported from abroad resulting in high cost of production and ultimately will result in high selling prices.

## 5. CONCLUSIONS AND SUG

### 5.1 GESTIONSConclusion

SMEs in Indonesia, especially in the city of Medan have not used accounting information in making decisions in order to improve the performance of MSMEs. The constraints faced by Indonesian MSMEs are limited raw materials such as yarn for weaving, where raw materials must be imported from India, causing high production cost. Besides that, there is also a lack of understanding of MSME actors in preparing financial reports, capital and human resources issues.

### 5.2 Suggestion

1. Subsequent research is suggested to examine the factors that influence the interests of MSME entrepreneurs using financial statements in their business
2. The government, in this case the offices related to MSMEs, provides training in preparing simple financial reports that are easily understood by MSMEs and training related to weaving, making ulos and making batik for the community, so that it can add skilled workers and ultimately improve MSME performance. The government is looking for solutions to the limited supply of yarn for SMEs so that the cost of production can be reduced.

## 6. ACKNOWLEDGMENTS

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