



CHALLENGES IN RECORDING AND REPORTING ASSETS

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Abstract

MSMEs (Micro, Small and Medium Enterprises) play a very important role in the Indonesian economy, especially in creating jobs and empowering communities. However, MSMEs often face significant challenges in recording and reporting their financial assets. This study aims to identify the main challenges faced by MSMEs in recording and reporting assets, analyze the factors that cause a lack of accuracy in asset recording, and evaluate the effect of limited managerial knowledge and access to technology on the quality of financial reports. The research method used is a qualitative approach with in-depth interviews with MSME owners/managers and field observations. The results of the study indicate that lack of accounting knowledge, limited human resources, and minimal technological support are the main factors that hinder accurate asset recording. In addition, inaccuracies in financial reports can have a negative impact on the ability of MSMEs to obtain funding from financial institutions or investors. Therefore, efforts are needed to increase capacity through management training and the use of accounting technology to improve the transparency and accuracy of MSME financial reports.

Kata kunci: MSMEs (Micro, Small, and Medium Enterprises), Financial Reporting Challenges, Asset Management, Accounting Knowledge, Technology Adoption in MSMEs)

1. INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) represent a fundamental pillar of economic development, particularly in emerging economies such as Indonesia. This entrepreneurial sector serves as a critical mechanism for job creation and community economic empowerment, demonstrating significant macroeconomic significance beyond mere numerical representation.

Empirical data from the Ministry of Cooperatives and Small and Medium Enterprises substantiates the sector's economic prominence. Between 2019 and 2021, the number of MSMEs expanded from 64.19 million to 65.46 million units, concurrently contributing an impressive 61.97% to the national Gross Domestic Product, equivalent to 8,573.89 trillion rupiah. Moreover, these enterprises demonstrate remarkable labor absorption capacity, engaging approximately 97% of the national workforce and attracting 60.4% of total investment. The certification process, such as adhering to the



Indonesian National Standard (SNI), plays a pivotal role in ensuring the quality and competitiveness of MSMEs, thereby opening access to both domestic and international markets (Gandhi et al., 2021).

The COVID-19 pandemic precipitated comprehensive governmental interventions to sustain MSME resilience. Strategic economic recovery initiatives included targeted credit fund allocations, interest subsidies for MSME credit provisions, and innovative tax incentives designed to mitigate operational burdens. Specifically, the Ministry of Finance implemented income tax relief (PPh 21) to alleviate financial stress on MSME employees.

Despite their economic significance, MSMEs frequently encounter substantial challenges in financial documentation, particularly regarding asset recording and reporting. These operational constraints can potentially compromise critical business decision-making processes and external stakeholder relationships with financial institutions and potential investors.

The comprehensive governmental support and strategic interventions underscore the recognition of MSMEs as a fundamental driver of Indonesia's economic dynamism and sustainable development.

Despite their significant contribution, MSMEs often face various obstacles in financial recording and reporting, especially related to the assets they own (Anggraini et al., 2023). Opportunities for fraud in the form of misuse of assets often occur due to weak recording and supervision (Ratmono, 2024)

Several factors in the success of MSME development are the scale of human resources seen from the number of employees owned, the choice of funding sources whether using personal funds or loans and the strategic location of the company (Anggraini et al., 2023). Explaining that the challenges of MSMEs in increasing business capabilities are very complex including: limited sources of capital, lack of human resource skills and minimal education and technology.

One of the main challenges faced by MSMEs is the lack of knowledge and understanding of accounting. Many MSME owners do not have an educational background in accounting, so they have difficulty understanding the basic principles of financial recording. Research shows that most MSMEs have not made good financial reports due to limited understanding and ability in accounting and bookkeeping. This lack of understanding can result in errors in recording financial transactions, which in turn can lead to inaccurate financial reports (Arnanto Nurprabowo & Mei Mei Meilani, 2023)

Financial aspects are often the main problem for MSMEs in various countries, not only in Indonesia. For example, in Japan, MSMEs tend to have more difficulty in accessing loans from banks compared to large companies. The bank views that MSMEs do not yet have the professional capacity to prepare good financial reports. In addition to the difficulty in accessing business capital, another problem related to the financial aspect is that MSME financial management is still not strong. This is often the cause of credit failure by MSMEs. MSMEs are dominated by household businesses and have family members, so that professionalism in managing finances is lacking. Sometimes MSMEs do not even separate household and business finances, which affects their financial reporting (Arnanto Nurprabowo & Mei Mei Meilani, 2023).

Another challenge faced by MSMEs is the lack of support from the government and related institutions in terms of accounting and financial reporting education. Although there are various government programs to support the development of MSMEs, these programs often do not reach all business actors or are less effective in providing practical training on accounting. Support from external parties is very important to increase the capacity of MSMEs in terms of recording and reporting assets. Business challenges in the form of limited financing structures, suboptimal management of marketing



strategies, inadequate preparation of financial reports and the availability of quality human resources are still lacking (Anggraini et al., 2023). The importance of the timeliness of financial statements by companies is an interesting thing for policy makers. The Financial Services Authority has set a deadline for the submission of financial statements no later than 4 (four) months from the end of the book closing (OJK, 2012). In detail the regulation states that the issuer's company's financial statements must be presented to the public and submitted to the Financial Services Authority no later than 4 months after the closing of the book ends.

As for research by Habibah et al., (2024) Challenges of Putikasari Rottan MSMEs in implementing SAK EMKM Putikasari Rottan thinks that accounting is complicated in terms of technicalities and data accuracy, lack of understanding of Putikasari Rottan MSMEs in the field of financial report management, low education and accounting knowledge, lack of human resources who have knowledge of SAK EMKM, uncertainty of profits obtained Putikasari Rottan UMKM and Socialization and Training of SAK EMKM Accounting Have Not Been Carried Out in UMKM.

The growth of MSMEs is a pillar of the economy of a region, because MSMEs have been able to survive in the midst of the crisis conditions experienced by Indonesia some time ago. The government has given recognition and appreciation for the economic strength supported by MSMEs in several regions, which have been able to encourage increasing per capita income of the community. In fact, the government has encouraged the growth of MSMEs through various policy regulations that provide fresh air for the growth of MSMEs in this country.

The five factors that cause a lack of accuracy in asset recording among MSMEs, namely educational background, accounting complexity, business size, relationships with external parties, and training received, contribute to building the perception of MSME actors in interpreting, compiling, and utilizing accounting information (Suryantara & Ridhawati, 2023).

Many MSME owners do not have a formal educational background in accounting or financial management (Naidah et al., 2024) This results in difficulties in understanding basic accounting principles, such as recording transactions, classifying assets, and preparing financial statements. Although information technology has developed rapidly, many MSMEs have not utilized modern accounting software that can help improve the accuracy of their asset recording. The variables of accounting knowledge and regulatory compliance affect the use of accounting information in MSMEs (Kurniawan purba & Terzaghi, 2022).

The limited understanding of accounting principles among MSME owners, coupled with insufficient access to technology, often results in inaccurate asset recording and financial reporting. Addressing these challenges requires focused efforts on improving managerial capacity and adopting digital tools to streamline financial processes, ensuring transparency and reliability in financial reports (Zulfikar & Astuti, 2023)

Although the growth of MSMEs is supported by existing regulations and policies, the problems faced by MSMEs cannot be resolved by issuing new policies. For example, the problems of product marketing, microfinance management, HR capacity and the ability to use e-commerce are still problems that need to be addressed together, between the government, academics, the community concerned with MSMEs and students, who can be a source of learning to develop and advance businesses pioneered by business actors (Dwiastanti et al., 2024).

Micro, Small and Medium Enterprises are presented as objects of research because MSMEs have an important role in economic activities in various sectors, which provides the largest employment



opportunities, creates new markets and innovation. This research also aims to adopt empirical methods to explore the influence of financing disruptions on the financial structure of MSMEs. Additionally, for understand the origins of financing constraints, this research also classifies Covers financing into various dimensions. This research also aims to adopt empirical methods to explore the influence of financing disruptions on the financial structure of MSMEs. Additionally, for understand the origins of financing constraints, this research also classifies Covers financing into various dimensions.

2. RESEARCH METHOD

This study uses a qualitative approach to explore the challenges in recording and reporting assets in MSMEs. The methods used include literature studies related to regulations and practices in MSMEs.

The qualitative data obtained were analyzed thematically to identify general patterns and trends. Reliability was carried out through triangulation of sources and verification of findings. This methodological approach allows for a deep understanding of the challenges and best practices in asset recording and reporting in MSMEs.

3. RESULT AND ANALYSIS

Lack of Knowledge and Understanding Many MSME owners and managers do not understand the basic concepts in asset management, such as classification, valuation, and reporting, Furthermore Poor record-keeping or the non-availability of financial records often leads to resource mismanagement and poor cash flow management, which have been identified as significant contributors to the failure of SMEs. MSMEs face challenges in financial management, particularly in asset recording and reporting. Integrating technology and providing targeted training can enhance reporting accuracy, build stakeholder trust, and improve resilience in a competitive market (Hendiarto et al., 2021). Many SMEs do not prioritize maintaining accurate accounting records, thereby limiting their ability to evaluate performance and access credit (Sooriyakumaran et al., 2020). They focus more on daily operational activities and ignore asset management. This lack of understanding causes MSMEs to be unable to manage assets effectively. They are often unable to distinguish between fixed assets and current assets, so that their records become inaccurate.

The study highlights that one of the primary challenges faced by SMEs in maintaining accurate accounting records is the lack of accounting knowledge among owners and managers. This limitation, combined with inadequate resources and limited training opportunities, results in poor financial documentation practices. The absence of reliable accounting records hinders the ability of SMEs to present accurate financial statements, thereby reducing their credibility with financial institutions and limiting access to essential funding. In addition, assessing the value of assets is also difficult due to limited knowledge (Kahsay, 2019).

Micro-enterprises, as is widely known, are not only constrained by capital but also by rudimentary business management. Rudimentary business management is often an obstacle to accessing capital. Government assistance requires requirements such as simple bookkeeping that are rarely carried out by micro-enterprises (Rachman et al., 2022). As expressed by a trading MSME manager, "We only have one financial staff who also has other duties. So, it is difficult for us to focus on recording assets in detail."



Limited resources also hinder MSMEs from adopting information technology that can help manage assets. The recording and reporting process is still done manually, which is prone to errors and inefficient. During the COVID-19 pandemic, MSMEs faced unprecedented challenges, including disruptions in supply chains and declines in consumer demand. Businesses such as UD. Bintang Muda had to innovate by adopting electronic bookkeeping systems to manage financial records more effectively. This shift enabled them to track cash flows, review income and expenditures, and make strategic decisions to survive the new normal (Rohmatin et al., 2021). There are problems faced by MSMEs in the region related to suboptimal financial management. This can affect the quality of financial reports and the ability of MSMEs to develop their businesses (Dewi, 2023).

MSME owners often have difficulty in identifying, classifying, and determining the value of their assets. Limited knowledge and poor documentation are the main causes. This complexity is compounded by a lack of understanding of the concepts of depreciation, amortization, and appropriate valuation methods. MSMEs tend to ignore these aspects in recording their assets.

The lack of use of this technology makes the recording and reporting process more complicated, non-standardized, and error-prone. MSMEs have difficulty obtaining accurate and up-to-date information regarding their assets. Compared to other operational activities, asset management is often a low priority for MSMEs. Blockchain technology has the potential in accounting to introduce distributed ledgers and good transparency. However, adopting blockchain technology also presents challenges in the accounting system. related to scalability, costs, regulations, and integration with existing systems (Ramadhani et al., 2024).

As a result, asset recording and reporting are often neglected or done haphazardly. MSMEs do not view asset management as an important aspect for business sustainability and development.

This finding is in line with previous research that identified similar challenges faced by MSMEs in recording and reporting assets (Mulyani et al., 2019). To overcome these obstacles, efforts are needed to increase the capacity of MSMEs, simplify regulations, and develop information systems that are more in line with the needs of MSMEs. To overcome challenges in financial recording, MSMEs can adopt structured frameworks such as sub-classifying financial transactions. This process, as seen in MSMEs in North Sulawesi, involves separating operational costs from capital expenditures to enhance report accuracy. It improves decision-making, builds credibility with stakeholders, and facilitates access to funding (Rumambi et al., 2019)

4. CONCLUSION

MSMEs play an important role in the Indonesian economy, but face various challenges in recording and reporting assets. Limited accounting knowledge among MSME owners, lack of access to technology, and minimal support from the government are the main factors that hinder the accuracy of financial reports. This has a negative impact on the ability of MSMEs to obtain funding from external parties. To improve the quality of asset recording and reporting, capacity building efforts are needed through managerial training and adoption of better accounting technology. Thus, MSMEs can strengthen their position in the economy and increase access to capital.

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