THE ACCOUNTING AND FINANCIAL MODEL
FROM THE PERSPECTIVE OF MICRO, SMALL, MEDIUM ENTERPRISES:
DOES THE CONCEPTS OF KNOWLEDGE REALLY MATTER?

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ABSTRACT

This paper explores the financial and accounting model in Micro Small Medium Enterprises (MSMEs) located in East Java Indonesia. The growing number of MSMEs has failed to meet good standard in business management. Data shows that 15% of MSMEs in Indonesia had good performance while others were categorized in stagnant and lower performance (Statistik Departmen Koperasi dan UKM Jatim, 2016). The common cause of MSME failure is the lack of managerial skill and experience (Maes et. al, 2014); the lack of entrepreneurial orientation and strategic planning practices (O'Rogan, 2002; Coleman, 2007). The condition relates to financial management that becomes core problem as there have been numerous entrepreneurs exclude recording of accounting transaction in business process to make decision. Accordingly, this study aims to observe a whole picture of financial recording and reporting in decision-making which would be based on qualitative method allied with the use of interviews with owners of MSMEs in Malang, Tulungagung and Banyuwangi. The result of the study showed that the determinant of products/services' price exclude costs component but MSMEs still achieve high profit. Additionally, the entrepreneurs of MSMEs consider profit as: a) cash balance to make investment in land and building; b) cash balance for travelling; c) cash balance to purchase business equipment and personal belonging; d) cash balance to finance family studies. Other findings also reveal that MSMEs still have outstanding performance and are able to obtain Bank credit without Financial Statement produced.

Key words: Micro Small Medium Enterprises (MSMEs), Financial and Accounting Model

INTRODUCTION

There are many numerous study related to MSMEs stated that MSMEs are considered to survive in globally economy problem. It is as a result MSMEs use local input and serve local market. In addition, MSMEs are capable to adapt with changes in dynamic market. The businesses are initiated by owner with minimum resources. It therefore, many people run the MSMEs so the sort of business have dominated economic activity in society. There were more than 99% of companies in most countries in form of MSMEs ((Husin & Ibrahim, 2013; Sava, Marza, & Ezanu, 2013). There were 6,825,931 MSMEs in East Java until 2016 (http://diskopumkm. jatimprov.go.id). The averaed development of MSMEs accounted for 5,07% (BPS 2016)

The increasing number of MSMEs shows that the rise of public interest to be businessmen. It also indicates higher opportunities for market of MSMEs products and services. The increase in total of MSMEs has not been followed by the success of MSMEs. There have been numerous MSMEs operated in a month or less than a year. The case indicates that only 15% of MSMEs are in good performance, whilst the rest of them in constant or even declining performance (Hitt, at al, 2001). Internal factors consist of tangible and tangible resources, capability and core competency that have significant impact on companies capabilities to develop competitive advantaged and earn profit Hitt, at al, 2001). Meanwhile, external factors include environment in general like demography, economy, politic, law, sociocultural and technology) and industry.

In context of MSMEs, internal factor particularly human resources become the most determinant factor. It is based on fact that MSMEs is sole proprietorship business that the owner is the manager who plays role in planning and execute the plan. There are several research shows that factors that influence MSMEs are human and human capital (Coleman, 2007); entrepreneurial orientation and strategic planning practices (O'Regan; 2002; Coleman; 2007) and environmental (Matthews & Susanne, 1995).
As a manager, the MSMEs owner will have role from planning until controlling all areas in production, marketing, human resource and finance. In finance area, MSMEs owner is obliged to manage business finance to improve business value. In general, MSMEs owners have sufficient technical knowledge but they have lack of skill and experience in managerial practice (Maes et al., 2004). Rantanen (2001) also states that small companies are prefer to use informal managerial practice than adopting sophisticated technique in planning and controlling.

In order to properly manage financial condition, MSMEs managers should have sufficient information related to financial position and business performance in a certain period. Unfortunately, there have been many MSMEs owners have lack knowledge of the importance of accounting record to achieve company objective. There are many owners have recorded financial transaction as (only) reminder of important event, especially recording related to debt or receivable. Meanwhile, recording quality will has impact on information in income statement, the amount of assets, liabilities and equity of MSMEs.

Semirat's study (2013) shows that the awareness of MSMEs businessmen in the importance of financial management is considered in low level. There are many MSMEs managers ignore good accounting recording. Madurapperuma, Thilakerathne, & Manawadu (2016) reveals that Srilanka MSMEs dosent have complete accounting record because of limited ability in accounting and limited fund to finance external professional accountant. As a result of this, the use of accounting information is limited only to support the measurement of financial performance by MSMEs hence it is difficult for MSMEs owners to calculated the efficiency of profit.

Although many MSMEs doesn't have accounting record, but there are also many MSMEs might develop business. Without sufficient accounting information, the fact also shows that MSMEs have been able to gain resources and become competitive in market. So it raise a question, is accounting recording really important for running MSMEs business? Accordingly this reseach aims to obtain a whole picture of model in recording and reporting financial activities in MSMEs.

STIMULUS-RESPONSE THEORY AND EXTERNAL ATRIBUTION THEORY

This study adopts Stimulus-Response Theory and Attribution Theory. The stimulus response theory is also stated reinforcement theory explains that people behave in certain way as they are stimulated by something (Sarwono, 2005). In social interaction related to stimulus-response, there are two ways functional relations. Firstly, functional relationship indicates that responds might have impact. The extent of stimulus might control respond which finally creates behavior. In social contact, people who always do such behavior are commonly difficult to be trusted. Secondly, functional relationship occurred when responds are just obtain impact on certain condition. This kind of relationship is stated as tact. If tact is applied frequently, it will creates belief and the collection of belief might lead to attitude. People with tact are easily to be trusted by other people. Tact can produce self confidence because people aware that their behaviors might influence others. The Stimulus response theory is related with motivation principle (Sarwono, 2005) who explains four motivation principle stated as drive, cue, response and reward or punishment. Drive is strong stimulus that encourage people to act which consisted as privary drive and secondary drive. Cue is stimulus to determine way and time to give possible responds.

The external attribution theory is a process to give perception to attitudes in an environment (Sarwon0, 2005). The attribution process is a perception and attribution is aimed to people or environment. The external attribution focuses on influential factors particularly by environment (external) and is less influenced by personal (internal). Sarwono (2005) explains that there might be tendency that external attribution is as result of information level. The information level relates to people knowledge on facts occurring in neighborhood. If the extent of information is categorized high level, the people might make distinctive attribution. If there are frequent attributions in someone's past experience, it is easier for the person to influence the social environment. Unstable attribution happened if the person have lack of social support, lack of information in the past or the person often have experience that degrade self confidence.

METHODOLOGY

This study uses qualitative research with naturalistic paradigm and phenomenology design. A sample of MSEMs owner were interviewed in order to obtain how they run business in respect of financial model aspect. This study draws 8 interviews that was conducted in 2017 with MSEMs owners East Java Indonesia. Question raised in this interview relates to financial reporting condition in MSMEs because researches aims to analyze research data based on decision usefulness approach of accounting information. This study uses data in form of observation through the recording process conducted by MSEMs. The observation used in this study is record analysis. The data collected in this research are from financial data of MSMEs in East Java. Conducted data then was analyzed using qualitative research method with phenomenology study.

RESULTS AND DISCUSSION

This research highly relates to the role of respondents as information source to enhance data according to research objective. Accounting for 6 respondents interviewed in this research, consisting MSEMs owners from small scale until large scale of business in term of assets size and profit. The variability also applies in the form of business such as production, service and merchandising area. The following table shows the characteristic of business of participant:

Table 1

Partisipan	Business	Assets	Revenue	MSEMs
R1	Dagang – Sugar and Farming	> 10 billion	> Rp 50 billion	Large
R2	Cullinary	> Rp 50 million - Rp 500 milion	> Rp 300 million - Rp 2,5 billion	Small
R3	Fashion	<Rp50 million	<Rp300 million	Micro
R4	Makeup Artist	> Rp 500 million - Rp 10 billion	> Rp 2,5 billion - Rp 50 billion	Middle
R5	Egg	<Rp50 million	<Rp300 million	Micro
R6	Catering	<Rp50 millios	<Rp300 million	Micro

The categorization (large, small, micro, middle) is based on The Act No. 20 of 2008. If it is based on regulatory of Bank Indonesia of 2015, all respondents in the table are categorized in micro and small business as Bank Indonesia will categorise MSMEs in large and medium business if the companies have good management and organization. This condition is difficult to attain for respondents including respondents R1 and R4 which are considered middle and large business in common rules in The Act No. 20 of 2008. Accordingly, this research uses term of micro, small, middle and large as to The Act No. 20 of 2008. According to financial problem frequently encountered by MSMEs, Bank Indonesia (2015) reveals that the financial problems consist of: a) difficulties in credit or capital access; b) there is no systematic approach of MSMEs funding; c) high transaction cost because of credit procedure; d) lack of access to formal fund; d) high rate of credit interest; e) many MSMEs are not accepted by bank as they have lack of managerial and financial ability. The result of study shows that respondent in this research have no difficulties in getting fund from bank credit.

The result of study also shows that MSMEs doesn't have problems is management organization as stated by Bank Indonesia (2015 such as: a) the lack of knowledge in production technology and quality control; b) the lack of knowledge in marketing. The majority of respondents in this research have good knowledge in production technology and they are also capable in their business even they don't have previous education and training related to the business. They just learn by doing. In relation to marketing, owner of MSMEs has capability in using information technology such as social media as marketing tool. Respondent R1 even uses yellow pages to search reputable client. This kind of information doesn't come from education or other formal training. Respondent R4 doesn't have education background in marketing but he can apply enforcement of "brand image" as one of marketing tool despite social media. The limitation of number in human resources is also not a problem of MSMEs as all MSMEs in this research are flexible in using human resources. Almost all respondent involve member of family. The lack of knowledge in accounting and finance as stated by Bank Indonesia is weakness encountered by MSMEs but this is not the main problem as some MSMEs in this research have good performance in term of profit although the owner of MSMEs have lack knowledge of accounting and finance. The result of the study shows several findings in: a) Selling Price Determination; b) Profit Concept; c) Financial Documents; d) Marketing Strategy.

This research involve MSMEs run in production, merchandising and service. Production businesses are obliged to calculate production cost before determining selling price. The calculation of cost production becomes the problem encountered by MSMEs because the business have no accounting record. From 3 companies in production business, there is no single company that apply cost accounting concept in determining selling price. Respondent R2 include all costs like raw materials, electricity, fuel, oil but exclude human resource in the calculation of selling price. Respondent R6 calculate selling price by involving wages, raw materials and percentage of expectable profit. R6 calculates selling price by calculating estimated profit, estimated tax and raw material cost. R4 consider "brand image" in determining selling price as selling price might result in client's trust in business. R4 gives expensive rate to client so client will think that R4 has outstanding service quality. The cost of service offered to costumers is not main factor to determine selling prince (even the materials is considered very expensive). R4 also doesn't have financial data to record all assets, liabilities, equity, revenue and expenses but the power or intangible asset supported by service quality have become determinant factor in the business. All MSMEs in this research doesn't have accounting record which are often claimed as main factor of the failure in MSEMs. This research states that all MSMEs are able to determine selling price without calculating production cost or involving all real costs in the process. By doing that, the business can survive and some of them have become market leader and profitable. Some small business in this research do exact calculation of cost production but they still have problem in business compared with large business that exclude such calculation in the selling price.

Another factor is profit concept which is as theory is calculated as revenue minus all cost in a certain period. However all respondents here have different concept of profit. R1 states that profit might be calculated by the amount of money balance that can be used to build home or other building. R4 said that profit means if he can do travelling and can buy additional equipment to support business. R6 reveals that profit as she can buy personal things from money balance of the business. These respondents commonly doesn't come from accounting education background. Additionally, respondents who respond in such ways have run business for more than 10 years so it is no doubt that such concept of profit has shaped in mind for years. In relation to profit measurement each respondent has different calculation. R1 considers costs and risks when calculation profit in determination of selling price but R1 doesn't have mechanism of profit measurement. R1 just comprehend that selling price doesn't always lead to expected outcome (profit) as the fluctuation of raw materials in the business. R1 and R2 states that their business is home production so it is unnecessary to think about profit as member of family must work and support each other so the business might be operated well. R4 never calculate profit but she knows the business has profit if there is cash balance to buy business equipment and to do traveling abroad.

CONCLUSION

This research draws 6 respondents from 6 MSMEs in East Java and results in finding related to selling price concept and profit concept. This research shows that the majority MSMEs in this research are able to determine selling price without process of calculation of cost production or all real costs. In term of profit concept, the owner of MSMEs have concept of profit as: a) cash balance to be used for investment in building/home and land; b) cash balance for travelling; c) cash balance to buy business equipment; d) cash balance to buy personal belongings. According to the result of study, this study suggest to other researches to do similar research by involving other MSMEs in east Java or any other areas. It is required because this research reveals that the size and character of MSMEs will influence strategy pattern, selling price determination and profit concept.

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