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Comparison Analysis of Accounting Standards for Entities Without Public Accountability and Financial Standards for Private Entities of SMEs in Indonesia

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Abstract

IFRS SME establishes standards that serve as recommendations for preparing financial reports for small and medium-sized businesses. SME IFRS originates from all IFRS simplifications intended to simplify financial reporting and cost-benefit analysis for SME clients. The Financial Accounting Standards for Organizations Without Public Accountability (SAK ETAP), established on May 19, 2009, continues to oversee private businesses' financial accounts. However, SAK ETAP does not give advice to private firms on the explanation of gross revenue that is directly relevant to taxes determination. As a consequence, Indonesia has established a new SAK for private firms known as the SAK EP. The use of SAK EP in the preparation of financial statements for micro, small, and medium-sized enterprises (MSME) can simplify the use of international accounting standards, lowering the higher costs associated with full IFRS implementation and the emergence of numerous new accounts and changes in financial statement presentation. New accounts include accounts for current tax, deferred tax, employee benefit duties, and post-employment benefit liabilities, as well as revised accounts for accruing costs, equity, and comprehensive income (expenses).

Keywords: SAK EP, SAK ETAP, IFRS SME

INTRODUCTION

Indonesia's economic growth continues to increase (Arizqi et al., 2022). Indonesia's economy in the third quarter of 2022 grew by 5.72 percent when compared to the fourth quarter of 2021 which was still at 5.02%. MSMEs (Micro, Small Medium Enterprise) play a major role in Indonesia's economic growth because their number reaches 99% of all work units. Based on data from the Ministry of Cooperatives and SMEs (Small Medium Enterprise), the number of MSMEs currently reaches 64.19 million with a contribution to GDP (Gross Domestic Product) of 61.97% or IDR 8,573.89 trillion. All of these MSMEs need to present financial reports for each accounting period.

Generally speaking, the purpose of preparing financial statements in accordance with the Statement of Financial Accounting Standards (PSAK) is to provide information regarding the financial position, performance, and changes in financial position of a company that is useful to a large number of users in making economic decisions. Financial Accounting Standards have been prepared by the Financial Accounting Standards Board of the Indonesian Institute of Accountants to serve as the foundation for creating financial reports (Ghina Izzati & Nuraeni, 2022). All stakeholders may rely on the company's financial statements if they are produced in compliance with Financial Accounting Standards (SAK) (Widiastuti & Khoiriawati, 2022).

Financial Accounting Standards (SAK) is a framework for producing financial reports to ensure uniformity in report presentation. SAK aims to make it easier for auditors and readers to comprehend and compare the financial statements of various firms. The Financial Accounting Standards (SAK) are derived from Statements of Financial Accounting Standards (PSAK) and Interpretations of Financial Accounting Standards (ISAK) published by the Standards Board of the Indonesian Institute of Accountants (DSAK IAI) and the Sharia Standards Board of the Indonesian Institute of Accountants (DSAS IAI), as well as regulatory capital market regulations for entities under its supervision.

The International Accounting Standards Board (IASB) issues IFRS (international financial reporting standards) for private entities that do not have public accountability. The applicable standard is IFRS SME (Small and Medium Entity). IFRS SME presents standards to serve as guidelines for small and medium-sized entities in preparing financial reports.

SME IFRS derives from all IFRS simplifications created to make it easier for users of SME's financial reports and cost-benefit analysis. Here are 5 major changes to IFRS for SMEs that make them easier to understand than the entire IFRS series (Vendy & Sucahyati, 2021):

1. Subjects irrelevant to private entities have been removed.
2. Unlike full IFRS, which provides several accounting treatment options in certain situations, SMEs have only one.
3. The principles for recognizing and measuring assets, liabilities, income, and expenses have been simplified.
4. All IFRS disclosures have been removed, and the required presentation has been simplified; and
5. The entire standard has been rewritten in plain English for increased clarity.

SMEs' adoption of IFRS has a positive impact on investor confidence by analyzing a company's financial position more accurately due to the stringent IFRS reporting and disclosure requirements. The financial information conveyed by statements prepared under IFRS is considered to be of the highest quality so it will also have a good impact on the level of confidence of users of financial statements whether they are investors, auditors, students, shareholders, institutions, accountants, law firms, or academics. Thus, the good faith of the reporting entity will also increase (Tripathi, 2018).

In Indonesia, several private enterprises, such as MSMEs, are obliged to provide quarterly financial reports. Adopted on May 19, 2009, the Financial Accounting Standards for Organizations Without Public Accountability (SAK ETAP) continue to oversee the financial statements of private entities. (IAI, 2009). SAK ETAP is among the recognized financial standards for generating more relevant financial reporting (Fadilla et al., 2021).

However, SAK ETAP does not guide private entities in explaining gross turnover that is directly related to the determination of taxation (Pratiwi & Setih Setio Muara Bungo, 2018). Therefore, Indonesia has established a new SAK for private entities, namely SAK EP. Where SAK EP is the result of the adoption of IFRS SME implementation, with the application of SAK EP it can simplify the use of international accounting standards by private entities and reduce the higher costs inherent in full IFRS implementation.

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METHOD

In this study, researchers used a qualitative research model, especially the technique for performing descriptive data research. After collecting data, the researcher conducted data analysis and developed conclusions based on the results of the study. Electronic media are used to search for information in order to gather data. As data sources, the IAI website and other published papers were provided as sources of information.

RESULTS AND DISCUSSION

Accountants (DSAK IAI) has ratified the Private Entity Financial Accounting Standards (SAK EP) on 30 June 2021 which is the adoption of IFRS for SMEs while taking into account Indonesia's conditions. Participating Entity Financial Accounting Standards (SAK EP) are Financial Accounting Standards for entities that do not have a public responsibility and can meet the needs of external users in preparing financial reports for general purposes. If the regulator passes it, entities with public accountability can use SAK EP. This EP SAK is simpler than IFRS-based General SAK in several ways, including eliminating foreign issues for private organizations, accounting policy options policies, simplifying some of the principles of recognition and measurement, fewer disclosures, and using simpler language.

SAK EP consists of 35 chapters and is equipped with attachments and illustrative examples of financial statements. The following is a table of contents of SAK EP:

No	Description
Chapter 1	Private entity
Chapter 2	Pervasive Concepts and Principles
Chapter 3	Presentation of Financial Statement
Chapter 4	Statement of Financial Statement
Chapter 5	Comprehensive Income Statement and Profit and Loss Report
Chapter 6	Report on Changes in Equity and Statement of Profit and Loss and Retained Earnings
Chapter 7	Cash flow statement
Chapter 8	Notes to Financial Statements
Chapter 9	Consolidated Financial Statements and Separate Financial Statements
Chapter 10	Accounting Policies, Estimates and Errors
Chapter 11	Basic Financial Instruments
Chapter 12	Issues Related to Other Financial Instruments
Chapter 13	Preparation
Chapter 14	Investment in Associated Entities
Chapter 15	Investment In Joint Ventures
Chapter 16	Investment Property
Chapter 17	Fixed assets
Chapter 18	Intangible Assets other than Goodwill
Chapter 19	Business Combination and Goodwill
Chapter 20	Rent
Chapter 21	Provisions and Contingencies
Chapter 22	Liability and equity
Chapter 23	Income
Chapter 24	Government Grants
Chapter 25	Loan Fees
Chapter 26	Share-Based Payments
Chapter 27	Impairment of Asset Value
Chapter 28	Employee Benefits
Chapter 29	Income tax
Chapter 30	The description of Foreign Exchange
Chapter 31	Hyperinflation
Chapter 32	Events After the End of the Reporting Period
Chapter 33	Disclosure of Related Parties
Chapter 34	Special Activities
Chapter 35	Transition Provisions [Draft] SAK Private Entities

Private Entity SAK adds several conditions that include changes in accounting policies and how these changes are implemented, and if it is difficult for an entity to distinguish whether these changes are changes in accounting policies or changes in accounting estimates, then these changes are treated as changes in accounting estimates.

Some of the matters regulated in SAK Private Entities other than those regulated in SAK ETAP include:

a. General impairment principles for assets besides inventories, including the definition and measurement of recoverable quantity and value in use.
b. Recognizing and assessing a cash-generating unit's impairment loss.
c. Supplemental provisions for goodwill impairment.
d. Reversal of loss is accounted for when the recoverable amount for the cash-generating unit is calculated.

SAK EP is more capable of describing the company as a whole than SAK ETAP; hence, its use is anticipated to boost cost effectiveness. This is crucial because private sector consolidation is required. Moreover, with the deployment of SAK EP, managers and owners of private company organizations are encouraged to enhance their knowledge of SAK EP, which is anticipated to minimize the cost of creating financial reports (Indrajati & Dermawan, 2022).

The adoption of Private Entity SAK also has an impact on changes in the preparation of financial statements and the emergence of various new accounts such as accounts regarding current tax, deferred tax, employee benefit obligations and post-employment benefit obligations. as well as accounts for accrued expenses, equity, and comprehensive income (expenses) which also underwent changes (Ghina Izzati & Nuraeni, 2022)

The importance of implementing SAK EP for MSMEs is as follows:

a. Can prepare their own financial reports.
b. Preparing financial statements is simpler than PSAK IFRS so as to provide ease of implementation.
c. Financial reports can be the basis for audit opinions, so that financial reports can be used to obtain additional funds for business development, such as loans from creditors (banks).
d. Provide reliable information in presenting the company's financial statements and various other measures for the benefit of making other managerial decisions.

The following is the difference between SAK Etap and SAK EP:

No.	Difference	SAK ETAP	SAK EP
1	Accounting Policies, Estimates and Errors	If a transaction, other event, or condition is not specifically regulated, SAK ETAP allows management to consider the requirements and guidance in PSAK nonETAP and the most recent arrangements of other standard setting bodies that use a similar framework to develop accounting standards, other accounting literature, and generally accepted industry practices, so long as it does not contradict the requirements or pervasive concepts and principles in SAK.	In such a case, Private Entity SAK simply allows the entity to review SAK's rules and regulations. Private Entity SAK adds several conditions, including changes in accounting policies and how these changes are implemented; if an entity finds it difficult to differentiate between changes in accounting policies and changes in accounting estimates, these changes are treated as changes in accounting estimates.
2	Financial Instruments	SAK ETAP prescribes the accounting treatment for debt securities and equity securities held by an entity, which must be classified into one of the following categories upon acquisition: (a) held to maturity (presented at cost after amortization of premiums or discounts), (b) for trading (measured at fair value, with unrealized changes in fair value recognized in profit or loss), and (c) available for sale (at fair value, with unrealized changes in fair value recognized as a separate component of equity).	Individual Individual SAK defines in increased depth and complexity the accounting treatment for financial instruments (financial assets and liabilities) and gives businesses the option to apply: (a) requirements in Chapter 11 Basic Financial Instruments and Chapter 12 Issues Related to Other Financial Instruments (both) in its entirety, or (b) the recognition and measurement requirements of PSAK 55 Financial Instruments: Recognition and Measurement (effective January 1, 2018) and the requirements of PSAK 56 Financial Instruments: Measurement (effective January 1, 2018) and the requirements of PSAK 57 Financial Instruments: Disclosures (effective January 1, 2018) and the requirements of PSAK 58 Financial Instruments: Disclosures (effective January 1,
3	Inventories	-	To implement Chapter 13, [draft] SAK Private Entities excludes specifically biological assets and inventories valued at fair value minus expenses to sell via profit or loss that are held by (a) producers of agricultural and forestry goods and minerals and (b) commodities brokers and dealers. [Draft] SAK Private Entity increases commodity-related stocks' expenditures.

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No.	Difference	SAK ETAP	SAK EP
4	Investments in Subsidiaries, Associates and Joint Ventures	SAK ETAP oversees the equity-based valuation of stakes in subsidiaries and the cost-based value of interests in associates and jointly managed organizations (acquisition cost less accumulated impairment losses).	SAK Private Businesses stipulates, among other things, that a parent firm consolidates its controlled subsidiaries by issuing consolidated financial statements and that investments in associates or jointly controlled entities are recorded using one of the following methods: (a) the cost model, (b) the equity method, or (c) the fair value model, and specifies the accounting treatment for businesses that lack joint control or considerable influence over a joint venture. [Draft] SAK Private Entities specifies in greater detail the rules for documenting investments in subsidiaries, associates, and jointly controlled entities in the separate financial statements of the parent entity, which are provided as supplementary information to the consolidated financial statements.
5	Impairment of Asset Value	-	Several matters regulated in [draft] SAK Private Entities other than those regulated in SAK ETAP include: a. General principles for impairment of assets other than inventories, including the definition and measurement of recoverable amount and value in use; b. Recognition and measurement of impairment losses on cash-generating units; c. Additional arrangements for goodwill impairment; and d. Reversal of loss when the recoverable amount for the cash-generating unit exceeds the amount of the loss.
6	Employee Benefits	-	In addition to disclosure, Private Entity SAK now regulates (a) vested and unvested benefits in measuring defined benefit obligations and (b) recognition and measurement of employee benefits expense for subsidiaries, if the parent entity provides employee benefits to employees of one or more subsidiaries.

No.	Difference	SAK ETAP	SAK EP
7	Income tax	SAK ETAP outlines the entity's income tax in short detail (based on tax laws),	Private Entity SAK also controls deferred tax and associated issues, such as the concept of deferred tax recognition, tax bases for assets and liabilities, transitory differences, deferred tax measurement, and the offset of current and deferred tax.
8	Events After the End of the Reporting Period	-	Private Entity SAK defines events after the reporting period to include all recent events when the financial statements were authorized for publication, even if these events occurred after the public announcement of profit or other financial information, and added examples of non-adjusting events for which disclosures were made, such as substantial business combinations, issuance or repurchase of the entity's debt or equity instruments, and changes in tax rates or tax laws.
9	Etc	-	The following are subjects covered by the [draft] SAK Private Entities that are not governed by SAK ETAP: a. Consolidated financial accounts and separate financial reports b. Financial instruments connected to hedging c. Mergers and acquisitions and goodwill d. government grants e. stock-based compensation f. Abnormal Inflation g. Specific endeavors, such as agriculture, resource exploration and assessment, and service concession agreements.

According to (Ghina Izzati & Nuraeni, 2022), SAK EP resulted in the creation of several new accounts and modifications to the financial reporting process. Accounts for current tax, deferred tax, employee benefit obligations, and post-employment benefit obligations, as well as changed accounts for accrued expenses, equity, and comprehensive income (expenses), are added as new accounts. The application of Private Entity SAK causes an increase in current assets and long-term liabilities, as well as an increase in comprehensive income (expenses), which reduces the comprehensive loss. The increase in comprehensive income (expense) was attributable to tax income that was deferred. Compared to the previous SAK ETAP, this change brought about by Private Entity SAK resulted in a more comprehensive financial report with more detailed calculations and explanations.

CONCLUSION

Multiple new accounts have developed as a consequence of the usage of Private Entity SAK in the preparation of MSME financial statements, and the presentation of these statements has also altered. Among the new accounts are those for current tax, deferred tax, employee benefit liabilities, post-employment benefit responsibilities, accruing costs, equity, and comprehensive income (for expenditures that have changed). The use of Private

Entity SAK increases current assets and long-term liabilities, as well as comprehensive income (expenses) and decreases comprehensive losses.

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