

BRIDGING THE GAP BETWEEN ACCOUNTING STANDARDS AND PRACTICE: EVIDENCE FROM SAK EMKM IMPLEMENTATION AMONG MSMEs IN TULUNGAGUNG, INDONESIA

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in Indonesia's economic development; however, many businesses continue to experience difficulties in implementing standardized financial reporting. Although the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) were introduced to simplify financial reporting for MSMEs, empirical evidence regarding their practical implementation at the business level remains limited. This study aims to examine the implementation of SAK EMKM and identify the gap between prescribed accounting standards and actual accounting practices at Hikmah MSME in Tulungagung Regency, Indonesia. A qualitative case study approach was employed using descriptive analysis. Data were collected through interviews, observations, and documentation of the enterprise's accounting records, including purchase records, production reports, fixed asset records, and cash receipt and disbursement documents. The collected data were analyzed by comparing the existing accounting practices with the recognition, measurement, presentation, and disclosure requirements stipulated in SAK EMKM. The findings reveal that Hikmah MSME maintains only basic manual bookkeeping focused on recording cash receipts, cash disbursements, and production costs. The enterprise has not implemented the complete accounting cycle, including ledger preparation, depreciation, financial statement presentation, and disclosures required by SAK EMKM. The implementation gap is primarily influenced by limited accounting literacy, inadequate awareness of SAK EMKM, constrained human resource capacity, and insufficient institutional support. These findings highlight that improving accounting compliance among MSMEs requires not only simplified accounting standards but also continuous technical assistance, accounting education, and stronger institutional engagement to enhance financial reporting quality and support sustainable business development.

Keywords: SAK EMKM, MSMEs, Accounting Implementation, Financial Reporting, Accounting Standards, Indonesia.



By Authors

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in maintaining Indonesia's economic stability and fostering sustainable economic development. During the 1998 Asian financial crisis, MSMEs demonstrated remarkable resilience and became one of the few sectors capable of sustaining national economic activities. Consequently, MSMEs continue to be recognized as a strategic driver of employment generation, poverty alleviation, and inclusive economic growth. To ensure sustainable business operations, every enterprise requires an effective accounting system capable of recording, processing, and reporting financial transactions systematically. The implementation of an appropriate accounting system enables businesses to manage operational activities efficiently, beginning with transaction documentation and culminating in the preparation of reliable financial statements. Nevertheless, one of the major challenges encountered by MSMEs is inadequate financial management resulting from accounting practices that are not fully aligned with established accounting standards.

An effective accounting system provides organizations with numerous advantages, including improved financial control, efficient cash expenditure management, reduced risk of fraud and financial misappropriation, and more accurate cash flow forecasting to support future operational planning. In Indonesia, where abundant natural resources and human capital constitute the country's primary development assets, MSMEs have become increasingly important in addressing economic instability. Beyond generating employment opportunities, MSMEs significantly contribute to domestic economic growth by producing goods and services that satisfy community needs. Consequently, strengthening the financial management capacity of MSMEs represents one of Indonesia's key strategies for promoting economic resilience and mitigating the adverse effects of economic downturns.

Access to external financing remains another critical issue for MSMEs. Commercial banks constitute one of the primary sources of business capital; however, financial institutions generally require borrowers to demonstrate sound financial performance through feasible business proposals and reliable financial statements. These requirements pose considerable challenges for many MSMEs because financial records are often incomplete or unavailable. As a result, financial institutions tend to exercise greater caution in extending credit to small businesses. Consequently, many MSMEs resort to alternative financing sources, including private lenders, despite the substantially higher borrowing costs associated with such financing. Rather than reflecting a preference for expensive credit, this phenomenon primarily illustrates the limited accessibility of formal financial services resulting from inadequate financial documentation.

Indonesia has approximately 57.9 million MSMEs (Merdeka.com), positioning the country among the world's leading economies in terms of the number of small business establishments since 2014. The sector has continued to expand, with projections indicating sustained growth through 2016 and beyond. MSMEs contribute approximately 58.92% of Indonesia's Gross Domestic Product (GDP) while accounting for 97.30% of

total national employment. These figures highlight the substantial contribution of MSMEs to Indonesia's economic performance and emphasize the necessity of strengthening their financial management practices to ensure long-term sustainability.

Tulungagung Regency possesses considerable potential for MSME development, with business activities distributed relatively evenly across its 19 districts. The region hosts a diverse range of industries, including handicrafts, batik production, and food and beverage enterprises. Preserving and strengthening these economic potentials are essential to promoting equitable regional development and improving local economic competitiveness. The widespread presence of MSMEs in both individual and community-based enterprises also provides significant opportunities for entrepreneurship development and local economic empowerment.

Despite their substantial contribution to the regional economy, MSMEs in Tulungagung continue to face several structural challenges, particularly concerning access to capital and market expansion. One of the underlying causes of these constraints is the limited implementation of proper accounting systems. Many MSMEs lack adequate accounting knowledge and technical competencies required to prepare financial statements in accordance with applicable accounting standards. Consequently, inadequate financial reporting has become one of the principal obstacles preventing MSMEs from obtaining external financing and improving business performance.

This condition is also evident at Hikmah Food Renggan Sum, which has not yet implemented a comprehensive accounting system. Financial transactions are recorded only partially, and financial statements are not prepared in accordance with the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM). As a result, business owners experience difficulties in measuring financial performance accurately, determining business profitability, and utilizing financial information as a basis for managerial decision-making. This situation illustrates the persistent gap between accounting standards and actual accounting practices among MSMEs, thereby underscoring the importance of evaluating the implementation of SAK EMKM within the context of MSMEs in Tulungagung.

LITERATURE REVIEW

Accounting Implementation

Accounting serves as the primary language of business, providing stakeholders with reliable financial information regarding an entity's financial position and operational performance. It enables organizations to systematically identify, record, classify, summarize, and communicate financial transactions, thereby supporting managerial decision-making and ensuring organizational accountability. According to Risal and Wulandari (2021), accounting functions as a business communication tool that provides essential information concerning a firm's assets, liabilities, equity, and business performance over a specific accounting period.

For Micro, Small, and Medium Enterprises (MSMEs), the implementation of accounting practices extends beyond statutory compliance and serves as a strategic instrument for improving business sustainability. Proper accounting implementation facilitates effective financial planning, performance evaluation, internal control, and informed decision-making. Furthermore, reliable accounting records increase business transparency and strengthen the credibility of financial information presented to external stakeholders.

Salmiah et al. (2015) argue that one of the principal advantages of implementing accounting in MSMEs is the establishment of systematic and well-organized bookkeeping practices. Proper bookkeeping improves the accuracy and reliability of financial statements, which subsequently enhances tax reporting and financial accountability. Moreover, accurate accounting information supports business planning and enables entrepreneurs to monitor financial performance more effectively. Darmawati and Oktaviani (2018) further emphasize that accounting implementation facilitates access to external financing by improving the quality of financial information required by third-party institutions, particularly commercial banks. In addition, accounting information enables business owners to evaluate operational efficiency and effectiveness, thereby contributing to better strategic decision-making and long-term business sustainability.

Despite these recognized benefits, many MSMEs continue to experience difficulties in implementing proper accounting systems due to limited accounting knowledge, inadequate human resources, and the perception that accounting procedures are overly complex. Consequently, financial records are frequently incomplete or prepared solely to meet immediate operational needs, limiting their usefulness for managerial and financing purposes.

Micro, Small, and Medium Enterprises (MSMEs)

Micro, Small, and Medium Enterprises (MSMEs) constitute one of the fundamental pillars of Indonesia's economic development. Their strategic role extends beyond employment creation to include poverty reduction, regional economic development, innovation, and income distribution. Owing to their flexibility and resilience, MSMEs have consistently demonstrated their ability to withstand periods of economic uncertainty and financial crises.

In Indonesia, the legal classification of MSMEs is regulated under Government Regulation Number 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, particularly Articles 35 and 36 (Muttaqien et al., 2022). The regulation classifies business entities based on their working capital as follows:

1. Micro Enterprises possess working capital of up to IDR 1,000,000,000 (one billion rupiah), excluding land and buildings used for business operations.
2. Small Enterprises possess working capital exceeding IDR 1,000,000,000 but not exceeding IDR 5,000,000,000, excluding land and buildings used for business operations.

3. Medium Enterprises possess working capital exceeding IDR 5,000,000,000 but not exceeding IDR 10,000,000,000, excluding land and buildings used for business operations.

Beyond their quantitative classification, MSMEs operate based on principles of economic democracy, fairness, independence, sustainability, productivity, and social responsibility. These principles aim to encourage inclusive economic growth while strengthening national competitiveness and improving community welfare. Consequently, enhancing the managerial and financial capabilities of MSMEs has become a national priority for achieving sustainable economic development.

Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM)

Recognizing that the Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP) were considered relatively complex for many MSMEs, the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia/IAI) introduced the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) at the end of 2016. The standard became effective on 1 January 2018 and was specifically designed to simplify financial reporting requirements while maintaining the quality and reliability of financial information.

Compared with SAK ETAP, SAK EMKM adopts a simpler measurement, recognition, and presentation framework that reflects the typical economic transactions conducted by MSMEs. The simplified approach is intended to encourage broader adoption of standardized accounting practices among smaller business entities while reducing the technical complexity associated with financial statement preparation.

According to Purba (2019), SAK EMKM applies specifically to MSMEs that do not have public accountability and do not publish financial statements for public purposes. Likewise, Kusuma and Lutfiany (2018) explain that SAK EMKM is intended for entities that are unable to prepare financial statements in accordance with the full Financial Accounting Standards (SAK), thereby providing a practical accounting framework suited to their operational characteristics.

As stipulated by the Indonesian Institute of Accountants (IAI) in SAK EMKM (2009:1.1), MSME entities are characterized by two principal criteria (Purba, 2019):

1. Business entities that do not possess significant public accountability.
2. Entities that prepare general-purpose financial statements for external users, including creditors, lenders, and other parties who are not directly involved in managing the business.

An entity is considered to possess significant public accountability if it:

1. Has filed, or is in the process of filing, a registration statement with a capital market authority or another regulatory body for the purpose of issuing securities in the public market; or

2. Holds assets in a fiduciary capacity for a broad group of external stakeholders, including banks, insurance companies, securities brokers and dealers, pension funds, mutual funds, and investment banking institutions.

The implementation of SAK EMKM is expected to improve the quality, consistency, comparability, and credibility of MSMEs' financial statements while facilitating access to external financing and strengthening business governance.

Financial Statements

Financial statements constitute a structured representation of an entity's financial position, financial performance, and cash flows (SAK, 2017). They function as the primary medium through which organizations communicate financial information to both internal and external stakeholders. Reliable financial statements enable users to evaluate an entity's financial health, operational efficiency, liquidity, profitability, and future business prospects.

According to SAK EMKM (2016:3), the primary objective of financial statements is to provide information regarding an entity's financial position and financial performance that is useful for a wide range of stakeholders in making economic decisions. While general-purpose financial statements satisfy the information needs of most users, specific stakeholders may require additional financial reports to support particular decision-making processes.

For MSMEs, financial statements serve not only as an accountability mechanism but also as a managerial tool for planning, controlling, and evaluating business performance. Well-prepared financial statements assist business owners in assessing profitability, monitoring business growth, managing cash flows, and making strategic investment decisions. Furthermore, financial statements frequently constitute an administrative requirement for obtaining bank financing, attracting investors, fulfilling taxation obligations, and demonstrating business credibility. Therefore, the preparation of financial statements in accordance with SAK EMKM is essential for improving financial transparency, strengthening governance, and enhancing the long-term sustainability of MSMEs.

RESEARCH METHOD

This study employed a qualitative research approach using a descriptive case study design. Qualitative research was considered appropriate because it enables an in-depth exploration of accounting practices as they naturally occur within the research setting without manipulating the observed phenomena. The study sought to obtain a comprehensive understanding of the implementation of accounting practices and the application of the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) in an MSME operating in Tulungagung.

A case study design was adopted to facilitate an intensive investigation of a single business entity. This approach allows researchers to examine accounting practices within

their real-life context and to identify the factors influencing the implementation of accounting standards. By focusing on one case, the study provides detailed and context-specific evidence regarding the gap between accounting standards and actual accounting practices among MSMEs.

The research was conducted at Hikmah Food, a small-scale food manufacturing enterprise located in Kepatihan Village, Tulungagung Regency, Indonesia. This enterprise was selected because it represents an MSME that has not yet fully implemented accounting practices in accordance with SAK EMKM, making it an appropriate case for investigating the challenges associated with accounting implementation.

The descriptive analytical method was employed to analyze the collected data. This method enabled the researchers to systematically describe the existing accounting practices, compare them with the requirements stipulated in SAK EMKM, and evaluate the extent to which the enterprise complied with the applicable financial accounting standards. Through this approach, the study provides an in-depth assessment of the implementation of accounting practices and identifies the underlying factors contributing to the observed discrepancies between accounting standards and actual business practices.

RESULTS AND DISCUSSION

Distribution of MSMEs in Tulungagung Regency

For quantitative studies, the discussion should include the interpretation of statistical analyses, hypothesis testing (where applicable), and comparisons with previous empirical research. For qualitative studies, the discussion should emphasize the interpretation of themes, patterns, or emerging concepts supported by empirical evidence. Authors are encouraged to critically discuss similarities and differences between their findings and previous studies, as well as explain how the study contributes to the advancement of accounting knowledge.

Table 1. Number of Business Establishments by Business Scale and District in Tulungagung Regency

District		Business Scale			Distribution (%)
		Micro and Small Enterprises (MSEs)	Medium Enterprises	Total	
(1)		(2)	(3)	(4)	(5)
010	Besuki	3.265	28	3.293	2,43
020	Bandung	6.824	51	6.875	5,07
030	Pakel	6.048	40	6.088	4,49
040	Campurdarat	6.600	80	6.680	4,92
050	Tanggunggunung	1.383	4	1.387	1,02
060	Kalidawir	6.436	23	6.459	4,76
070	Pucanglaban	2.260	5	2.265	1,67
080	Rejotangan	6.695	43	6.738	4,97
090	Ngunut	11.753	171	11.924	8,79

District		Business Scale			Distribution (%)
		Micro and Small Enterprises (MSEs)	Medium Enterprises	Total	
(1)		(2)	(3)	(4)	(5)
100	Sumbergempol	9.078	40	9.118	6,72
110	Boyolangu	11.252	125	11.377	8,38
120	Tulungagung	13.808	330	14.138	10,42
130	Kedungwaru	13.841	200	14.041	10,35
140	Ngantru	6.095	53	6.148	4,53
150	Karangrejo	5.919	22	5.941	4,38
160	Kauman	8.303	63	8.366	6,16
170	Gondang	8.679	40	8.719	6,43
180	Pagerwojo	2.500	8	2.508	1,85
190	Sendang	3.629	10	3.639	2,68
Total		134.368	1.336	135.704	100,00
		(99,02)	(0,98)	(100,00)	

Source: Tulungagung Regency Economic Census, 2016.

The data presented in Table 1 demonstrate that Micro and Small Enterprises account for 99.02% of all business establishments in Tulungagung Regency, whereas Medium Enterprises represent only 0.98%. Tulungagung District records the largest concentration of business establishments (10.42%), followed by Kedungwaru District (10.35%) and Ngunut District (8.79%). These findings confirm that MSMEs constitute the backbone of the regional economy and therefore require adequate institutional support, particularly in financial management and accounting practices.

To further understand the challenges encountered by MSMEs, interviews were conducted with business owners. According to Mrs. Sugiarti, although the Office of Cooperatives and Micro Enterprises regularly organizes training programs for MSMEs, limited dissemination of information and insufficient digital literacy among business owners have significantly constrained participation in these activities. Mrs. Sugiarti explained that both she and Mr. Toni experienced difficulties accessing information technology, resulting in limited awareness of training opportunities provided by the relevant government agencies. Consequently, many MSME owners have not benefited from accounting training or financial management programs intended to improve business capabilities.

The limited participation in capacity-building programs contributes to the inadequate implementation of accounting practices among MSMEs. As a result, many business owners continue to manage their financial activities based on personal experience rather than standardized accounting principles, thereby limiting their ability to prepare financial statements in accordance with the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM).

According to the Republic of Indonesia Law No. 20 of 2008, the classification criteria for Micro, Small, and Medium Enterprises (MSMEs) are described as follows (Seomohadiwidjojo, 2019):

- a. Micro Enterprises are business entities with net assets of up to IDR 50,000,000, excluding land and buildings used for business operations, and annual sales revenue not exceeding IDR 300,000,000.
- b. Small Enterprises possess net assets ranging from IDR 50,000,000 to IDR 500,000,000, excluding land and buildings, with annual sales revenue between IDR 300,000,000 and IDR 2,500,000,000.
- c. Medium Enterprises possess net assets ranging from IDR 500,000,000 to IDR 10,000,000,000, excluding land and buildings, and annual sales revenue ranging from IDR 2,500,000,000 to IDR 50,000,000,000.

Based on these classification criteria, Hikmah Food can be categorized as a Small Enterprise, with total business assets amounting to approximately IDR 230,000,000 and annual revenue of approximately IDR 150,000,000. This classification confirms that the enterprise falls within the scope of entities required to prepare financial statements in accordance with SAK EMKM. Nevertheless, the findings reveal that the enterprise has not yet fully implemented the accounting standards, primarily because of limited accounting knowledge and inadequate financial reporting practices. These findings reinforce the existence of a gap between the accounting standards prescribed by SAK EMKM and the actual accounting practices implemented by MSMEs in Tulungagung Regency.

Financial Reporting Practices of Hikmah MSME

The findings indicate that Hikmah MSME maintains financial records using a manual and highly simplified bookkeeping system. The primary objective of the existing records is to monitor cash inflows and cash outflows rather than to prepare comprehensive financial statements in accordance with the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM). Financial transactions are recorded manually in notebooks without following a complete accounting cycle.

Table 2. Raw Material Purchase Record of Hikmah MSME (Rice Gipang Product)

Rice Gipang							
Date	Supplier	Product	Quantity	Unit Price	Expiry Date	Production Code	Total Cost
18/04/2024	Subur	Rice	250 kg	-	-	-	Rp3.750.000
18/04/2024	Subur	Sugar	100 kg		-	-	Rp3.400.000
18/04/2024	Subur	Plastic Packaging	30 kg		-	-	Rp990.000
18/04/2024	Subur	Cooking Oil	15 kg	-	-	-	Rp255.000
18/04/2024	Subur	LPG Gas	15 Cylinders	-	-	-	Rp270.000

Rice Gipang							
Date	Supplier	Product	Quantity	Unit Price	Expiry Date	Production Code	Total Cost
18/04/2024	Subur	Other Ingredients	3 Packs	-	-	-	Rp100.000
	Total						Rp8.765.000

Source: Secondary Data (2024).

The purchase records demonstrate that Hikmah MSME has established basic documentation for production inputs. However, the records are limited to documenting expenditures and are not integrated into a comprehensive accounting information system.

Production Records

Production records summarize the utilization of raw materials together with manufacturing-related expenses, including labor costs, electricity, gas consumption, and packaging expenses. These records are intended to estimate production costs rather than calculate manufacturing costs based on standardized accounting procedures.

Table 3. Production Report of Hikmah MSME, 2024 (Rice Gipang Product)

Rice Gipang			
Material	Gross Quantity	Net Quantity	Cost
Rice	250 kg	250 kg	Rp3.500.000
Sugar	100 kg	100 kg	Rp3.400.000
Plastic Packaging	30 kg	3 piring	Rp990.000
Cooking Oil	15 kg	105 lembar	Rp255.000
LPG Gas	15 tabung		Rp270.000
Other Ingredients	3 bungkus		Rp100.000
Production Labor Cost			Rp600.000
Packaging Cost			Rp720.000
Total Production Cost			Rp9.835.000

Source: Secondary Data (2024).

The production records indicate that Hikmah MSME has attempted to identify the principal cost components associated with its manufacturing activities. Nevertheless, production costs are not classified according to standard cost accounting principles, and no systematic cost allocation procedures are applied.

Fixed Asset Records

Based on interviews with the business owner, Hikmah MSME owns several fixed assets used to support production activities. These assets consist of buildings and production equipment, as summarized in Table 4.

Table 4. Fixed Asset Records of Hikmah MSME

Hikmah's Asset			
No.	Asset	Asset Value	Total
1.	Building	Rp200.000.000	
	Subtotal		Rp200.000.000
2.	Stove	Rp10.000.000	
3.	Sealing Machine	Rp5.000.000	
4.	Molding Equipment	Rp5.000.000	
5.	Wok and Production Equipment	Rp10.000.000	
6.	Supporting Equipment	Rp10.000.000	
	Total		Rp40.000.000

Source: Secondary Data (2024).

Although Hikmah MSME maintains a list of production assets, depreciation is not calculated or recognized in the accounting records. Consequently, the reported production costs and business profitability do not fully reflect the economic value of asset utilization.

Cash Receipt Procedures

Cash Sales

The cash sales procedure implemented by Hikmah MSME consists of the following steps:

1. The sales division receives customer orders and prepares two copies of a sales receipt. The original copy is delivered to the customer together with the purchased goods, while the duplicate copy is forwarded to the operational administration section managed by Mr. Toni's spouse.
2. The operational administration section receives the sales receipt and manually compiles sales records that serve as the basis for preparing simple financial reports. The sales documents are subsequently archived as part of the company's administrative records.

Credit Sales

The procedure for collecting receivables arising from credit sales is conducted as follows:

1. Customers receive a credit sales invoice.
2. The operational administration section records the credit sales invoice in a subsidiary ledger.
3. The warehouse division prepares and packages products based on the approved credit sales order.

4. The delivery division verifies the shipment against the sales documentation before delivering the products together with the credit sales invoice.
5. The operational administration section prepares the invoice and forwards it to the customer along with the supporting sales documentation.

Cash Disbursement Procedures

Cash disbursement activities primarily relate to raw material procurement and follow the subsequent procedures:

1. The operational administration section places purchase orders with regular suppliers.
2. Upon receiving the ordered materials, supporting purchase documentation is retained together with evidence of cash payment.

Implementation of the Accounting System at Hikmah MSME

The findings reveal that Hikmah MSME has implemented only a basic accounting recording system. Financial records are maintained manually by Mrs. Sulis, the wife of the business owner, who serves as the administrative officer. Although basic accounting principles have been introduced, the accounting system remains incomplete and does not fully comply with SAK EMKM.

The accounting process adopted by Hikmah MSME consists of the following stages:

1. Recording Stage. Financial transactions are identified, classified into cash receipts and cash disbursements, and recorded manually in accounting notebooks.
2. Classification Stage. Under generally accepted accounting procedures, recorded transactions should subsequently be posted to the general ledger. However, Hikmah MSME does not maintain a general ledger, resulting in the absence of systematic account classification.
3. Summarization Stage. Standard accounting practice requires the preparation of a trial balance and adjusting entries before producing financial statements. In contrast, Hikmah MSME simply consolidates all recorded transactions at the end of the accounting period to prepare a basic profit calculation without performing formal accounting adjustments.
4. Financial Reporting Stage. Financial reporting is limited to comparing total cash receipts with merchandise purchases and cash expenditures. Comprehensive financial statements, including the Statement of Financial Position, Statement of Profit or Loss, and Notes to the Financial Statements as required under SAK EMKM, are not prepared.

The interviews further reveal that the primary reason for the non-implementation of SAK EMKM is the owner's limited awareness of the existence and requirements of the standard. In addition, insufficient accounting knowledge and the absence of continuous guidance or supervision from relevant institutions have contributed to the limited adoption of standardized accounting practices. Consequently, financial reporting remains focused solely on monitoring cash movements rather than producing reliable financial information for managerial decision-making.

Overall, the accounting practices implemented by Hikmah MSME remain limited to recording and categorizing financial transactions. The enterprise has not yet completed the full accounting cycle prescribed by SAK EMKM. Instead, business performance is evaluated through a simple comparison between cash inflows, merchandise purchases, and cash outflows. These findings clearly demonstrate the existence of a substantial gap between the accounting requirements established under SAK EMKM and the actual accounting practices adopted by Hikmah MSME, thereby supporting the central argument of this study regarding the discrepancy between accounting standards and business practice among MSMEs in Tulungagung.

Discussion

The findings of this study demonstrate that the implementation of accounting practices among MSMEs remains largely compliance-oriented at the operational level rather than being strategically utilized as a managerial tool. Although Hikmah MSME has maintained financial records to document daily business transactions, these records function primarily as evidence of cash movements instead of serving as an integrated accounting information system capable of supporting financial reporting, performance evaluation, and business decision-making. This finding suggests that the existence of bookkeeping practices alone does not necessarily indicate the successful implementation of accounting standards.

From the perspective of SAK EMKM, accounting implementation should encompass the complete accounting cycle, beginning with transaction recognition and ending with the preparation of standardized financial statements. However, the evidence collected in this study indicates that Hikmah MSME performs only selected accounting activities, particularly transaction recording and simple cash monitoring. Essential accounting procedures, including ledger posting, adjusting entries, depreciation recognition, trial balance preparation, and the preparation of complete financial statements, have not been implemented. Consequently, the accounting system functions merely as an administrative record rather than as an information system that generates reliable financial information.

This finding reflects a broader issue faced by many Indonesian MSMEs, namely the distinction between bookkeeping and accounting. Business owners frequently perceive accounting as simply recording revenues and expenditures, whereas accounting standards require systematic measurement, classification, recognition, and reporting of financial information. As a result, business owners often believe that they have

implemented accounting despite the absence of standardized financial reporting. This misconception contributes to the persistent gap between accounting standards and actual accounting practice, which forms the central issue investigated in this study.

The inability of Hikmah MSME to prepare financial statements in accordance with SAK EMKM cannot be attributed solely to limited accounting knowledge. Instead, the findings suggest that accounting implementation is influenced by an interaction between internal and external factors. Internally, the owner's limited accounting literacy reduces the perceived usefulness of standardized financial reporting. Since the business has operated for years using relatively simple bookkeeping procedures, the owner considers the existing recording system sufficient for monitoring daily operations. This perception diminishes the motivation to adopt a more structured accounting framework, despite the potential benefits offered by SAK EMKM.

Externally, institutional support has not yet been sufficiently effective in encouraging accounting standard adoption. Interviews revealed that government training programs exist; however, information regarding these programs is not consistently disseminated among MSME owners. Limited digital literacy further reduces access to available training opportunities, thereby weakening the transfer of accounting knowledge from supporting institutions to business practitioners. These findings imply that improving accounting implementation requires more than the issuance of accounting standards; it also requires continuous education, technical assistance, and accessible communication strategies tailored to the characteristics of MSMEs.

The findings also illustrate that inadequate accounting implementation has broader managerial implications than merely incomplete financial reporting. Without standardized financial statements, the business owner cannot accurately distinguish between operational expenses, production costs, capital expenditures, and business assets. Consequently, the reported business profit represents only the difference between cash inflows and cash outflows rather than the actual financial performance of the enterprise. This limitation reduces the reliability of financial information used for pricing decisions, production planning, investment evaluation, and long-term business development.

Furthermore, the absence of comprehensive financial reporting may weaken the financial credibility of MSMEs when interacting with external stakeholders. Financial institutions generally require reliable financial statements as part of credit risk assessment. When accounting records are incomplete, lenders face greater information asymmetry regarding the firm's financial condition, increasing the perceived lending risk. As a consequence, MSMEs may experience greater difficulty accessing formal financing despite possessing economically viable business operations. Therefore, accounting implementation should not merely be viewed as a regulatory obligation but as a strategic mechanism for strengthening business competitiveness and improving access to external resources.

The findings of this study also reinforce the arguments proposed by Salmiah et al. (2015), who emphasize that systematic bookkeeping improves the quality of financial

reporting and financial accountability. Likewise, Darmawati and Oktaviani (2018) argue that reliable accounting information facilitates cooperation with financial institutions and supports more effective business management. Nevertheless, this study extends these arguments by demonstrating that the principal challenge is not simply whether MSMEs maintain accounting records, but whether those records satisfy the qualitative characteristics required by SAK EMKM. In other words, accounting implementation should be evaluated based on the quality, completeness, and usefulness of financial information rather than the mere existence of bookkeeping activities.

Another important contribution of this study lies in demonstrating that the implementation gap is multidimensional. Previous discussions often attribute poor accounting implementation primarily to limited accounting knowledge. However, the present findings indicate that the gap is also shaped by organizational habits, perceived costs and benefits of accounting practices, limited institutional outreach, and insufficient technical assistance. This suggests that policies aimed at increasing SAK EMKM adoption should move beyond conventional accounting training toward continuous mentoring programs, practical accounting assistance, and digital financial reporting support specifically designed for MSMEs.

Overall, this study provides empirical evidence that the gap between accounting standards and accounting practices among MSMEs is not merely a technical accounting issue but also an institutional and behavioral challenge. Bridging this gap requires strengthening accounting literacy, improving institutional support, and fostering greater awareness among business owners regarding the strategic value of standardized financial reporting. Unless these interconnected issues are addressed simultaneously, the implementation of SAK EMKM is likely to remain partial, thereby limiting its intended role in improving financial transparency, managerial decision-making, and sustainable business growth among Indonesian MSMEs.

CONCLUSION

This study examined the implementation of the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) at Hikmah MSME in Tulungagung Regency to assess the extent to which its accounting practices comply with the prescribed financial reporting standards. The findings reveal that although the enterprise has established basic bookkeeping practices, its accounting implementation remains limited to recording daily business transactions and monitoring cash inflows and outflows. The accounting system has not yet incorporated the complete accounting cycle required by SAK EMKM, including systematic recognition, measurement, classification, depreciation of fixed assets, ledger posting, and the preparation of standardized financial statements.

The study further demonstrates that the financial reports prepared by Hikmah MSME are primarily intended to satisfy internal operational needs rather than to provide decision-useful financial information. Consequently, the financial information produced

does not adequately represent the enterprise's financial position and performance, limiting its usefulness for managerial decision-making, business performance evaluation, and access to external financing. This finding confirms the existence of a significant gap between the accounting framework prescribed by SAK EMKM and its practical implementation at the MSME level.

The evidence also suggests that this implementation gap extends beyond technical accounting issues. Limited accounting literacy, inadequate understanding of SAK EMKM, constrained human resource capacity, and insufficient dissemination of accounting guidance collectively hinder the adoption of standardized financial reporting practices. These findings indicate that successful implementation of SAK EMKM requires not only regulatory compliance but also continuous capacity building, practical technical assistance, and stronger institutional support for MSMEs.

From a practical perspective, this study highlights the need for MSMEs to strengthen their accounting systems by adopting financial reporting practices that comply with SAK EMKM. The preparation of complete and standardized financial statements would improve financial transparency, facilitate more informed managerial decisions, enhance business credibility, and increase opportunities to obtain financing from formal financial institutions. At the policy level, government agencies, professional accounting organizations, and higher education institutions should collaborate in providing continuous accounting education, mentoring programs, and accessible financial reporting assistance to accelerate the adoption of SAK EMKM among MSMEs.

Suggestions for Future Research

This study focuses on a single MSME using a qualitative case study approach; therefore, its findings cannot be generalized to all MSMEs in Indonesia. Future research is encouraged to investigate the implementation of SAK EMKM across multiple MSMEs operating in different sectors and geographical regions to provide broader empirical evidence regarding accounting compliance among Indonesian MSMEs. Comparative studies involving businesses with different sizes, industries, and organizational characteristics may also provide a deeper understanding of the contextual factors influencing accounting standard adoption.

Furthermore, future studies could adopt mixed-methods or quantitative approaches to examine the determinants of SAK EMKM implementation, such as accounting literacy, owner characteristics, digital accounting adoption, organizational readiness, institutional support, and access to financial resources. Such studies would contribute to developing more comprehensive evidence regarding the factors that facilitate or hinder accounting standard implementation.

Finally, future researchers are encouraged to evaluate the effectiveness of accounting training programs, digital bookkeeping applications, and government mentoring initiatives in improving accounting compliance and financial reporting quality among MSMEs. Such research would provide valuable practical recommendations for

policymakers and support the broader objective of strengthening financial governance and sustainable business development within Indonesia's MSME sector.

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