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## Explores the Basic Elements of Preparing MSMEs Financial Statements for Agricultural Entities

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### Abstract

This study explores the basic elements of Micro, Small, and Medium Enterprises (MSMEs) financial statements for agricultural entities. These basic elements for each type of business entity have specific characteristics in terms of its economic activity. The agricultural entity, as the object of this research, is the rice farmer group. This research uses the qualitative method. Data were collected through in-depth interviews and literature studies. Data analysis uses an interactive analysis model with data reduction stages, data display, and concluding the exploration of MSMEs financial reporting's basic elements. The results show that these basic elements include forming elements of financial statements component, concept elements underlying the financial statements, and process elements for generating financial statements. The forming elements consist of the existing conditions of MSMEs and agricultural activity. Agricultural activities include rice plant, rice harvest, and rice post-harvest activities, and their financial transactions. The concept elements are basic assumptions for preparing financial reports that cover the entity unity, going concern concept, and accrual basis, and the concept of biological assets and their accounting treatment. The process elements include the MSMEs accounting system. The accounting system consists of the accounting cycle, forms, accounting records, and the component of financial statements.

**Keywords:** Financial Statements, Basic Elements, Agricultural Activities, Basic Assumptions, Biological Assets, Accounting System

### Introduction

An agricultural entity is an organization/business entity that stands alone with its economic activities centered on agricultural activities. Based on these activities, the agricultural entity is also viewed as an accounting entity. In this perspective, the entity is the center of accountability, and financial reports are the medium of accountability (Suwardjono, 2014). Consequently, the entity is required to carry out accounting and prepare financial reports. Therefore, all transactions are recorded from the company's perspective.

So far, the recording of transactions that have occurred has been done simply by MSMEs due to their limited knowledge. According to Risnaningsih and Iriani (2018) and Rumambi *et al.* (2019a) there are still many MSMEs that carry out simple accounting records; even many MSMEs have not recorded their financial transactions (Risnaningsih and Tanuwidjaja, 2015; Risnaningsih and Suhendri, 2015). On the other hand, MSMEs need transparent and accountable reports to apply for credit at banks to increase their working capital (Risnaningsih and Iriani, 2018). Therefore, MSMEs need to prepare its financial reports.

Understanding that the company's accounting records depend on the company's point of view and reflect the characteristics of their economic activities that are different from each entity, the basic elements used in preparing the financial statements also reflect each entity's business characteristics. Agricultural and trading entities have different business characteristics. The rice-agricultural entity also has different characteristics of the business and economic activities from the coconut-agricultural entity. The existing accounting standards are general in nature, so that they do not answer the entity's specific needs.

Based on the understanding that an entity needs to prepare financial reports, the phenomenon of MSMEs in Indonesia that have not carried out adequate accounting records, and the different MSMEs business characteristics, this study aims to explore the basic elements of MSME financial reporting from agricultural entities. Several previous studies were carried out to compile MSME financial reports on manufacturing companies (Ningtyas 2017), trading companies (Mutiah, 2019), as well as information system designs and financial reports in non-profit organizations (Andarwati, 2016). This study is different from previous studies because it focuses on exploring the basic elements in the preparation of financial statements where these basic elements are used as a reference in designing the financial statements of agricultural entities. Also, the results of this study will enrich the concept of preparing the entity's financial statements.

## Methods

This study used qualitative research methods. The research object was the MSMEs of the rice farmer group. Collecting data through in-depth interviews and literature studies. The interview focused on the MSMEs business field, agricultural activities, and financial transactions. Literature studies were conducted to obtain various concepts regarding MSMEs accounting, agricultural accounting, accounting systems, and previous research. Data analysis uses an interactive analysis model (Miles *et al.*, 2014) with data reduction, display data, and concluding. Data reduction is made to classify, organize data, and transform crude data from the results of interviews and literature studies. Data presentation is carried out by presenting a collection of information arranged based on certain themes related to the operational activities of MSMEs and relevant theories. After that, conclusions are drawn on the results of the exploration of MSMEs financial reporting's basic elements.

## Results and Discussion

The word element comes from the Latin *elementum*, which means the basic parts that underlie something (Prent *et al.*, 1969). To prepare financial reports, various elements are needed, which form the basis of the preparation process. Based on the exploration results, several important elements needed in the preparation of financial statements were found:

- a. Existing conditions of MSMEs.

This element is related to the current overview of the MSMEs Rice Farmer Group. Indicators of this element include information on the formation of MSMEs, organizational structure, sources of capital, and forms of participation, including sources of acquisition of fixed assets and types of fixed assets along with the equipment used in their business activities, forms of business activities, accounting records, agricultural products, and production cycles.

b. Agricultural activities.

It contains rice plant activities and financial activities. Indicators of this element include rice planting, rice harvesting, and rice post-harvesting activities. These activities also reflect financial activities that occur, such as payment of workers' wages for the three activities, purchasing equipment, and supplies, purchasing seeds, purchasing fuel, purchasing fertilizers and pesticides, etc.

c. Basic assumptions for preparing financial statements.

Based on the Financial Accounting Standards for Micro, Small, and Medium Entities (2018), there are three concepts underlie the preparation of financial statements: entity unity, business continuity, and the concept of accrual basis. In the context of an entity unity, MSMEs are independent entities, independent of their owners. Transactions related to MSMEs must be separated from MSME owners' transactions (Rumambi et al., 2019b). The accounting records are made in the books of accounts from the business unit's point of view and not the person owning the business.

MSMEs run their business indefinitely and are not intended to be liquidated. Therefore, MSMEs need to prepare financial reports for their business continuity (Rumambi et al., 2019b). Financial statements as a means of measuring entity performance by evaluating past and current financial positions (Osadchy et al., 2018).

In preparing financial statements, MSMEs use an accrual basis to recognize assets, liabilities, equity, income, and expenses. Transactions are recorded when transactions are recognized when they occur so that MSMEs can recognize debt and receivables from buying and selling transactions (Rumambi et al., 2019b).

d. The concept of biological assets and their accounting treatment.

In agricultural activities, rice plants are biological assets because they undergo a biological transformation process (Ankarath et al., 2015). This transformation process occurs through rice planting activities, including land preparation, nursery, planting, and maintenance. Biological transformation increases the quantity and quality of rice plants. The transformation period of rice plants only three months, less than one year. They are classified as current assets and are recorded as an inventory (Dewi et al., 2017).

The accounting treatment for agricultural entities includes recognition, measurement, presentation, and disclosure (Rumambi *et al.*, 2019b). Rice plant recognition starts from planting activity to the point of harvest, and the measurement uses historical cost. The presentation of rice plants as an inventory of biological assets in the financial position statement and the disclosure is made in the notes to the financial statements.

e. The entity's accounting system.

The accounting system is an organization of forms, records, and reports that are coordinated in such a way as to provide the financial information needed by management in managing the entity's business (Mulyadi, 2018). The accounting system must be designed to meet the company's information specifications by considering the balance between the benefits and

costs incurred to obtain this information. The process of organizing forms, records, and reports requires an accounting cycle. The accounting cycle is the process of preparing a financial report. The accounting cycle describes accounting activities' stages since transactions occur in the company and are contained in accounting records (Pura, 2013). The stages of accounting activities include recording, classifying, summarizing, and reporting (Fitria, 2014). The accounting cycle is also understood as an accounting procedure used to record transactions in a journal, classify transactions in a general ledger and summarize and present them in financial statements. It can be said that transactions play an important role as a source of information in preparing financial statements. Transactions that occur become a description of the entity's characteristics. Therefore, agricultural activities carried out by MSMEs of rice farmers groups are an element of forming financial reports.

All of these elements can be classified into three basic elements, namely:

- 1) Forming elements of financial statements component.  
Information on the condition of existing entities and agricultural activities carried out by MSMEs forms various transactions that impact changes to their assets or finances. The transactions that occur are the basis for constructing items/accounts in the financial statements. These items/accounts reflect the entity's resources (SFAC no. 6) in the form of claims on existing resources, the impact of transactions, and the conditions that change those resources and claims. The business scope and transactions of MSMEs arising from their business activities provide information about resources, claims, and MSMEs transactions' impact (Rumambi et al., 2019a).
- 2) Concept elements underlying the preparation of financial statements.  
It requires the entity's accounting policies, elements of financial statements, and chart of accounts to prepare financial statements. At the conceptual level, these elements are also formed from the basic assumptions underlying the preparation of financial statements and the concept of biological assets and their accounting treatment.
- 3) Process elements for generating financial statements.  
The forming elements and concept elements form the foundation for the financial statement preparation process. The preparation process is carried out in an accounting cycle. The transactions that occur, the underlying concepts, and the accounting cycle are an integral part of the accounting system in organizing accounting documents and records by the entity.

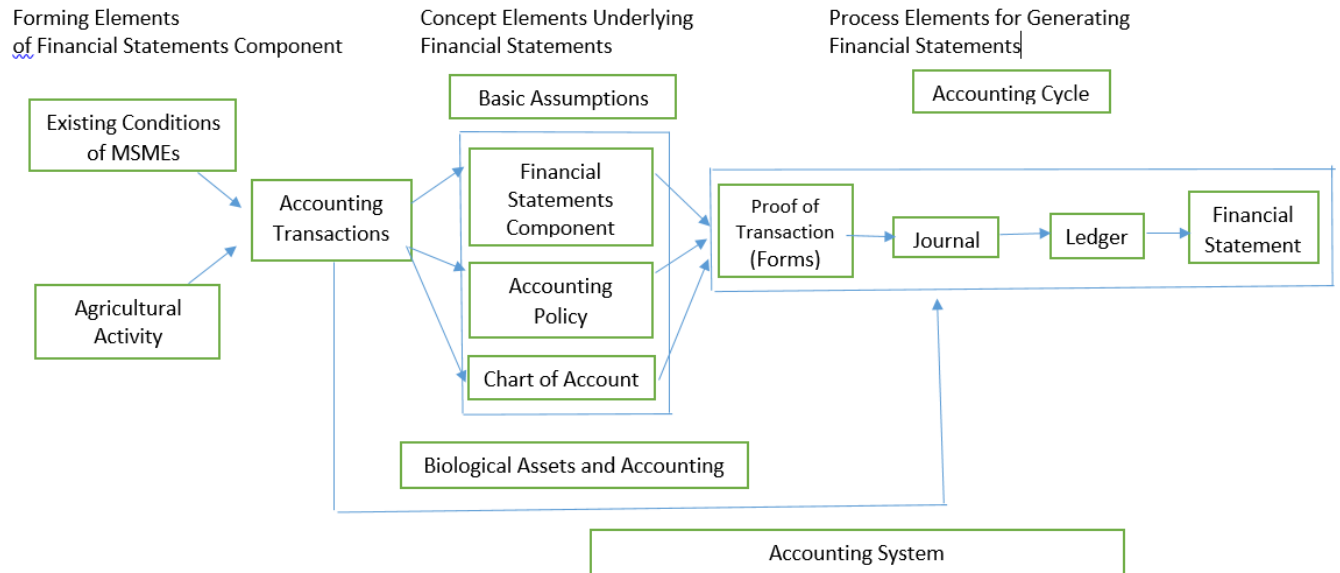


Figure 1. Basic Elements of Preparing MSMEs Financial Statements for Agricultural Entities  
 Financial reports are a means of providing information about the achievement of financial performance and position at a certain time (Kieso et al., 2017). For financial reports to be understood by all interested parties, the report's information must be presented in a transparent manner (Lepadatu and Pirnau, 2009). As a medium of accountability, financial reports must present relevant, reliable, and consistent financial information (Azim and Ara, 2015). Therefore, the three elements in Figure 1 form the basis for MSMEs in preparing their financial reports.

### Conclusion

There are several reasons for the need for MSMEs to prepare financial reports. First, the entity is the center of responsibility and financial reports are the medium of accountability. Second, to get additional working capital from banks / other financial investors. Third, financial management should be carried out in a transparent and accountable manner. Therefore, the forming elements of financial statement components, concept elements underlying financial statements, and process elements for generating financial statements are the basic elements for preparing the entity's financial statements.

The concept of basic elements can be used in general for all types of entities. Because each type of business has its own characteristics based on its business activities, the financial statements also describe the characteristics of its economic activities. This study opens space for further research using different accounting concepts and entities with a broader field of business to develop the basic element concepts built from this study. The results of this study also give a space for another research to design the MSMEs financial statements for agricultural entities.

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