

Portrait Of MSME Financial Reports In Central Maluku: Analysis Of Conditions And Challenges

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Abstract:

Transparent and accurate financial reports are the key to the sustainability of micro, small and medium enterprises (MSMEs), which play a vital role in the regional economy, including in Central Maluku Regency. However, MSMEs in this region often face difficulties in preparing good financial reports due to limited accounting knowledge, inadequate infrastructure, and low awareness of the importance of well-managed financial reports. This research aims to analyze the conditions and challenges faced by MSMEs in Central Maluku in preparing accurate and transparent financial reports. The method used is a qualitative approach with case studies, in-depth interviews, and analysis of MSME financial report documents in Central Maluku. The research results show that the majority of MSMEs in Central Maluku do not have systematic and regular financial reports, and still rely on inaccurate manual recording. Apart from that, a lack of understanding of the importance of financial reports, limited access to accounting training, and low support from local governments are the main challenges in managing MSME financial reports. Based on these findings, this research provides recommendations for increasing the capacity of MSMEs through simple accounting training, strengthening the role of assistance from the government and financial institutions, and providing a digital platform to facilitate financial reporting. This effort is expected to increase the competitiveness of MSMEs in Central Maluku and support more inclusive local economic growth.

Keywords: *Financial Reports, MSMEs, Central Maluku, Accounting, Challenges, Financial Management, Capacity Building.*

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I. Introduction

In Indonesia, the concept of MSMEs is regulated in Law of the Republic of Indonesia Number 20 of 2008 concerning MSMEs, Article 1 explains that micro businesses are productive businesses owned by individuals and/or individual business entities that have micro business criteria as regulated in the Law.

Micro, Small and Medium Enterprises (MSMEs) are one of the driving forces of a strong people's economy. Micro, Small and Medium Enterprises (MSMEs) have an important role in the economic and industrial growth of a country (Nuhikmah, et al. 2014). MSMEs in Indonesia, especially in Central Maluku, are the backbone of the local economy. As a sector that dominates the labor market, MSMEs have a role

vital in creating jobs, reducing poverty, and accelerating the process of economic development. However, many MSMEs in this region have difficulty managing financial reports professionally. Irregularity in financial recording and management can result in ignorance about the condition of their business, which has the potential to hinder making appropriate strategic decisions.

Clear and regular financial reports are very necessary to help MSME entrepreneurs measure performance, plan for the future, and gain access to financing from financial institutions. The function of financial reports is to provide information about the company's financial condition, whether in good or bad condition. Ineffective and efficient financial report management has an impact on decisions taken by management. This research aims to describe the condition of MSME financial reports in Central Maluku, as well as the factors that influence the management of their financial reports. Several factors that influence the low quality of MSME financial reports in Central Maluku include limited basic accounting knowledge, lack of access to accounting training or assistance, and limited technological infrastructure for managing financial reports digitally. In addition, most MSMEs in the region also face challenges in accessing formal financial services, which exacerbates lack of transparency in financial recording and reporting.

II. Library Survey

Financial Report Management

Financial reports are a structured presentation of the financial position and financial performance of an

entity in a certain period (PSAK No. 1, 2015).

Financial reports contain accurate information about the Company's financial condition and are useful for users of financial reports. Financial reports consist of three main components: **balance sheet**, **income statement**, and **cash flow report**. Each has an important role in describing the company's financial condition and performance. Previous studies revealed that many MSMEs in Indonesia, including in Central Maluku, still have difficulty in preparing adequate financial reports due to a lack of knowledge and skills in accounting and limited access to training or support from financial institutions.

According to SAK EMKM (2018), financial reports show the results of management's responsibility for the use of resources entrusted to them. The aim is as a means of providing information on the financial position and financial performance of an entity that is useful to a large number of users in making economic decisions by anyone who is not in a position to request special financial reports to meet the information needs.

Several studies show that good financial management can increase MSMEs' chances of surviving and developing. However, without clear financial reports, MSMEs risk experiencing difficulties in managing cash flow, predicting capital needs and making data-based decisions.

Micro, Small and Medium Enterprises (MSMEs)

In general, the goals and objectives to be achieved are the creation of strong and independent Micro, Small and Medium Enterprises (MSMEs) that have high competitiveness and play a major role in the production and distribution of basic needs, raw materials, as well as capital to face free competition. Micro, small and medium enterprises are the main players in economic activities in Indonesia. The future of development lies in the ability of micro, small and medium enterprises to develop independently. The contribution of micro, small and medium enterprises to GDP in Indonesia in 2019 was around 60%, with details of 42% being the contribution of small and micro enterprises, and 18% being medium enterprises. Micro, Small and Medium Enterprises (MSMEs) are a business category based on the scale and economic capacity possessed by business actors. MSMEs play a very important role in a country's economy, especially in creating jobs, increasing people's income, and encouraging regional economic growth.

The following is the definition of MSMEs based on business scale, **Micro Business**: Businesses owned by individuals or families with limited income or assets. The income or assets do not exceed the limits set by the government. In Indonesia, the limit is a business with an annual turnover of less than IDR 300 million and usually involves a relatively small workforce, even just one person or family. **Small business**: Have greater income or assets compared to micro businesses, but are still limited. In Indonesia, small businesses have an annual turnover of between IDR 300 million to IDR 2.5 billion. And the workforce involved in small businesses is usually more than in micro businesses. **Medium Business**: Businesses that have quite large revenues or assets, but are still on a smaller scale than large companies. In Indonesia, medium-sized businesses have an annual turnover of between IDR 2.5 billion to IDR 50 billion. And medium-sized businesses have a larger production capacity and workforce, and generally have a wider market network. **The Role of MSMEs in the Economy: Job Creation**: MSMEs absorb a lot of labor, both on a local and national scale, which contributes greatly to reducing unemployment, **Driving Innovation and Creativity**: MSMEs are often a source of new innovation by creating unique and diverse products or services, and **Economic Equity**: MSMEs can help achieve economic equality in various regions, even in more remote or less developed areas. **Increasing Community Income**: MSMEs provide opportunities for the community to earn income, both from business owners and workers in them, **Increasing Economic Resilience**: The diversity of types of business run by MSMEs makes the economy more resilient to crises because it does not depend only on certain sectors. **Challenges Faced by MSMEs: Access to Financing**: Many MSMEs have difficulty obtaining financing from formal financial institutions due to limited collateral or lack of understanding of financial management, **Marketing and Competition**: MSMEs often find it difficult to market their products

them widely and compete with large companies that have more resources, **Technological Limitations**: MSMEs often do not utilize technology optimally, both in the production process and in marketing products and **Management and Human Resources**: Limitations in terms of business management and the quality of human resources are the main obstacles in the growth of MSMEs. **Support for MSMEs**: The government and various institutions often provide various supports for MSMEs, such as: **Financing**: Microcredit programs, interest subsidies, or loans with easier terms. **Training and Mentoring**: So that MSME players have skills in managing business, finance and marketing.

Marketing Facilities: Several digital platforms or online markets provide opportunities for MSMEs to reach a wider market. **Infrastructure**: Infrastructure development that supports smooth distribution and market access. MSMEs have great potential in the economy, and with the right support, they can develop and contribute more to economic growth.

Solutions and Assistance for MSMEs

Several studies show that providing solutions in the form of accounting training, implementing simple accounting systems, and assistance from financial institutions and the government can improve the quality of MSME financial reports. Haris & Azis (2017) suggest that local governments and financial institutions introduce technology-based accounting assistance programs, such as simple accounting applications that can be used by MSMEs to simplify the financial recording and reporting process. Additionally, Tax et al. (2017) stated the importance of coaching and training for MSME players to increase their financial literacy. This training is not only related to recording transactions, but is also related to sound financial management, business planning and cash flow management. Solutions and assistance for Micro, Small and Medium Enterprises (MSMEs) are very important to overcome the various challenges they face, as well as to support business growth and sustainability.

The following are several solutions and forms of assistance that can be provided to MSMEs to help them develop:

1. Easier Access to Financing consisting of Solutions: Providing access to financing with low interest and more flexible terms. Banks and financial institutions can provide microloan products or credit programs for MSMEs with easier terms, as well as provide training in business financial management. **And Mentoring:** Assistance in planning and managing business finances effectively, including understanding cash flow, good financial records, as well as debt and working capital management.

2. Training and Capacity Building consists of Solutions: MSMEs need additional skills in various aspects of business, such as management, marketing and use of technology. Training and education programs can be very beneficial. **And Mentoring:** Government institutions or private organizations can provide training to MSMEs on how to increase productivity, understand the market, develop products, and improve skills in the fields of digital marketing and online marketing.

3. Increased Access to Markets consisting of Solutions: Providing a broader marketing platform, both offline (for example, exhibitions or fairs) and online (via marketplaces, social media and e-commerce). The government can play a role in facilitating market access for MSME products. **And Mentoring:** Assistance in creating more effective marketing strategies, using social media for promotions, and integrating MSMEs in the e-commerce ecosystem. This assistance can also include branding and product marketing.

4. Use of Technology and Digitalization consists of Solutions: Utilization of information technology (IT) can increase the efficiency and competitiveness of MSMEs. The use of management software, digital payment systems, and the use of the internet for marketing are very important. **And Mentoring:** Provide training in the use of technology such as accounting software, inventory management applications, as well as developing websites or online stores to expand market reach.

5. Product Development and Innovation consisting of Solutions: Helping MSMEs in product development, including innovation in design, quality and product diversification so they can compete in a wider market. **And Mentoring:** Mentoring program that teaches MSMEs about market research, trend identification, and product development that suits consumer needs and preferences. This assistance can also help in the product testing and certification process to increase competitiveness.

6. Improving the Quality of Human Resources (HR) consists of Solutions: Improve the skills and knowledge of MSME players and their workers to be more professional in running a business. **And Mentoring:** Providing leadership, managerial training programs, as well as soft skills and hard skills development for MSME entrepreneurs and their employees. Apart from that, mentoring or coaching programs from more experienced business people can also help.

7. Simplification of Regulations and Licensing consists of Solutions: The government can simplify the licensing and regulatory processes that complicate MSME operations, such as procedures for setting up a business, business permits and product standards. **And Mentoring:** Providing education to MSME players regarding applicable regulations and permits, as well as assisting them in the process of obtaining the necessary business permits so that business legality is more guaranteed.

8. Collaboration with Private Parties and Government consists of Solutions: The government and private sector can collaborate in creating an ecosystem that supports MSMEs through more integrated programs. **And Mentoring:** Building networks between MSMEs and large companies or government institutions that can provide access to markets, resources and better collaboration opportunities. For example, cooperation in marketing, procurement of raw materials, or joint product development.

9. Infrastructure and Logistics Development consists of Solutions: Providing infrastructure that supports smooth product distribution, both in the form of efficient delivery facilities and good transportation access. **And Mentoring:** Providing information about efficient and affordable logistics, as well as providing assistance for better supply chain management so that products can reach consumers at low costs.

10. Government Programs and MSME Support Institutions consist of Solutions: The government can provide various assistance programs such as tax incentives, loan interest subsidies, or support for research and product development. **And Mentoring:** MSME support institutions, such as cooperatives, business associations,

or training institutions, can help provide information and access to available assistance or financing programs.

Supporting Theories and Concepts

Some concepts that are relevant for this research are **Accounting Theory** And **Decision Theory**. Accounting theory focuses on recording and preparing financial reports in accordance with applicable accounting standards. **Ghozali (2018)** states that accounting aims to produce accurate and transparent financial information to help stakeholders make the right decisions. In the context of MSMEs, information produced from accurate financial reports greatly influences business continuity and investment decisions. Decision theory explains that good and accurate information in financial reports helps make better decisions, both by internal management of MSMEs and by external parties, such as financing institutions. **Harris & Moffat (2019)** states that business decisions based on inadequate financial information carry a high risk of facing losses.

III. Methodology

This research uses an approach **qualitative** with method **case study**. A qualitative approach is research that focuses on in-depth observation to understand a phenomenon, event and social dynamics. Data is collected via **in-depth interview** And **survey** to owners and managers of MSMEs in Central Maluku Regency. The research sample consisted of 50 MSMEs operating in the trade, agriculture and handicraft sectors. The research instrument includes a questionnaire on financial management and semi-structured interviews which aim to explore MSME owners' understanding of their financial reports, the obstacles they face, and the support they need.

Research result

The condition of financial reports is based on the financial performance of MSMEs, the majority of MSMEs in Central Maluku Regency have not prepared complete and regular financial reports. The research results showed that 17 MSMEs or (36%) had profit and loss reports, while the remaining 33 MSMEs or (64%) did not have profit and loss reports, and only relied on memory or simple cash records. Most business owners admit that they do not have basic knowledge of accounting and proper financial management. Knowledge of finance has a significant impact on financial management. The way a person manages their personal finances and managing their finances can be a major factor that contributes to someone's financial satisfaction or dissatisfaction.

Several factors are the main causes for business owners to keep records, including the large number of customers and the increasing number of orders, which has an impact on the recording process, and this happens continuously and continuously. Every time there is a financial transaction, you can only issue a note as proof of purchase but do not have financial records. This ignorance often causes difficulties in knowing how much profit or loss they experience, as well as difficulties in planning business expansion.

Challenges in Preparing Financial Reports

Some of the main challenges faced by MSMEs in Central Maluku Regency in preparing financial reports include:

Internal Factors, Nature and character are the strongest psychological influences that influence behavior in preparing financial reports. The nature and characteristics of good financial reports will influence the quality of financial reports and be useful for their users. **External Factors: Lack of understanding of accounting**: Many MSME owners do not have an educational background in finance or accounting, **Resource limitations**: MSMEs often do not have sufficient resources to hire accounting experts or purchase accounting software, **Limited training facilities**: Access to training regarding financial management is still very limited in this area and **Limited access to internet technology**. Modern accounting software can simplify the process of preparing financial reports. **Limitations of Financial Knowledge**: Many MSMEs in Central Maluku do not have adequate knowledge regarding managing financial reports. This causes them difficulty in making accurate and transparent reports and many MSMEs do not record financial transactions in detail or do not know how to make correct profit and loss reports and balance sheets. **Limited Access to Financing**: MSMEs in Central Maluku often have difficulty accessing financing from formal financial institutions, such as banks. This is due to limited collateral and a lack of understanding of loan procedures and MSMEs that rely on informal or personal sources of financing often have difficulty managing cash flow and are at risk of being trapped in debt that is difficult to repay. **Simple Bookkeeping System**: Many MSMEs in Central Maluku use very simple bookkeeping systems or even none have a bookkeeping system at all. This causes difficulties in analyzing their financial performance, and hinders data-based decision making. **Technology Limitations**: The use of technology in recording financial reports is very minimal. Many MSMEs still rely on manual recording which is prone to errors and data loss and the use of technology in marketing or inventory management is also relatively low, which has an impact on operational efficiency. Which causes the impact of poor financial management. Irregular financial management has an impact on the inability of MSMEs to obtain access to financing from banking institutions. Apart from that,

MSMEs also have difficulty planning business expansion or mitigating financial risks. One example found in this research is the difficulty of a small entrepreneur in maintaining *cash flow* them during the low season, which occurs due to a lack of clear information regarding expenses and income. So the role of financial reports in decision making. Good financial reports can help MSME entrepreneurs in: Assessing business profitability and liquidity, making more informed investment or expenditure decisions and preparing long-term plans and planning business expansion. However, in reality, most entrepreneurs in Central Maluku do not utilize financial reports for making strategic decisions. This happens because they rely more on experience and intuition in running a business. Recommended Solutions to Overcome Challenges include **Financial Management Training:** A training program is needed to increase the knowledge of MSMEs in Central Maluku in terms of financial recording and preparing financial reports that comply with standards. This training can be organized by the government or educational institutions, and can involve MSMEs who are more experienced. **Counseling on Access to Financing:** Socialization and assistance on how to access financing from formal financial institutions, including simplifying the loan application process, as well as providing information regarding special credit programs for MSMEs. **Use of Technology for Bookkeeping and Marketing:** The use of simpler and more affordable digital bookkeeping applications, as well as training in using digital platforms for product marketing can help MSMEs in Central Maluku increase efficiency and expand the market. **Improving the Bookkeeping and Cash Management System:** Introducing a neater and more systematic bookkeeping system and providing guidance in planning business cash flow in a more structured and realistic manner. **Collaboration with Government and Private Institutions:** The government, together with the private sector, can collaborate in creating assistance schemes or easier access to financing for MSMEs in this area.

The first recommendation from the Experts regarding Increasing Financial Literacy requires efforts to increase financial literacy among MSME players. Training programs regarding good financial management, preparing financial reports, and using modern financial applications are very necessary to optimize business management. Strengthening Infrastructure and Market Access The government is expected to improve basic infrastructure such as roads, bridges and internet access, as well as create wider market access through digital platforms or collaboration with large distributors. Diversification of Income Sources MSMEs need to be encouraged to diversify their businesses so that they do not depend on just one sector or product. This can reduce the risk of income instability caused by external factors. Simplification of Financing Procedures To make things easier

For MSMEs to access financing, policies are needed that simplify financing procedures from financial institutions and provide incentives for those who are able to demonstrate good financial management.

IV. Conclusions And Recommendations

Conclusion:

Most MSMEs in Central Maluku do not have complete and regular financial reports. Many MSME entrepreneurs do not have basic knowledge about accounting and good financial management. Poor financial management has a negative impact on decision making and business sustainability. Transaction recording is only through sales notes. so that it is used as a flow in recording financial report transactions, and the minimal use of internet technology services which makes it easier for MSME managers to prepare financial reports. The condition of MSME financial reports in Central Maluku shows various challenges, especially related to poorly structured financial management and limited access to important resources such as financing and markets. Therefore, increasing the capacity of MSME actors in managing finances as well as improving infrastructure and other supporting policies is very necessary so that MSMEs in this area can develop better.

Recommendation:

Regional governments need to hold training and seminars on financial management for MSMEs, as well as provide affordable financial assistance or consultant facilities. MSME entrepreneurs are advised to start preparing simple financial reports even though they are not fully in accordance with accounting standards. There is collaboration between the Cooperatives and SMEs Service and the Regency BPKAD Central Maluku in synergizing regarding financial report management patterns so that MSME income can be accessed in regional financial reports as a concrete manifestation of developing MSMEs in Central Maluku Regency, financial and banking institutions in this area need to introduce financial products that support MSME financial management, as well as providing easy access to financing with friendlier terms for small entrepreneurs. And the Technical Service should facilitate financial recording and reporting through internet technology services to make it easier for MSME managers to prepare financial reports.

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