

**Study of Creation and Development of Small and Medium Scale Enterprises Finance
(Case Study of SMEs in District of East Ende, Regency of Ende)**

LD Gadi Djou
FEB Universitas Flores, Ende, NTT
gadidjou@yahoo.com

Fitri Lukiastruti
STIE Bank BPD Jateng, Semarang
flaluki@yahoo.com

Abstract

The contribution of SMEs to Indonesian economy is very significant. Similarly, the labor absorption impact created by them. Such accomplishments is achieved by the business management that are not yet fully optimized, particularly in financial management. There are still many SMEs that do not have a informative financial management system and with a lot of weaknesses. A huge potential can be grown by SMEs through awareness of importance of good and right financial management. Besides improving business performance, it is also a good start for SMEs when they apply for funds to banks and other funding sources which usually requires financial reporting. Various limitations inherent to SMEs, especially from the aspect of its resources must be overcome by implementing easy and simple financial management system. This study is aimed to determine how easy to learn financial records from recording, presentation of financial statements, and assessment of business health are conducted by SMEs (in food and non food field) in the District of East Ende, Regency of Ende. As a first step, the study and application was carried out at this district. By doing this study, it is expected that SMEs financial management will be more optimal and they are able to increase its contribution as leading sectors for Indonesian economy.

Keywords: SMEs in Ende, financial management, small scale business accounting.

INTRODUCTION

1.1 Background

Until the present, there are still many small and medium scale enterprises (SMEs) that do not understand the importance of accounting implemented in the financial statements, yet. While, it has very significant and very beneficial impact for the progress of the business. Industrial structure in Indonesia describes the real fact that the number of small and medium scale enterprises and cooperatives actually is more than the large scale enterprises. Currently, many SMEs are having difficulty in obtaining credit to grow their business, due to the lack of clarity about their accounting systems. It makes foreign parties dubious to invest their fund and to take them to build mutual partnership in business.

Such unideal condition is also experienced by SMEs in Regency of Ende, especially in District of East Ende. They still also face several other constraints, such as the issue of business licenses, as most SMEs are built with familial management. Their business capability was often obtained from generation to generation only. So, the development process for their product is still obstructed. The access for SMEs to capital lending institutions is also obstructed. Another constraints faced by them are related to the technical management, products marketing, and inadequate infrastructures. They also have limited access and understanding of market information, especially on the demand and price and so business network.

Every effort to develop SMEs also requires technological support to make them able to compete in global market. Technological aspect has to be considered as a solution to improve the quality of SMEs business

processes and ultimately they are able to win the competition. In this matter, the accountants should be able to master and introduce the latest technology to give them assistance for this purpose.



Figure 1.1. Map of Regency of Ende

Ende is the name of a regency on the island of Flores and this regency is indivisible part of East Nusa Tenggara Province. It is located in the center Flores mainland. Ende is also the capital of this regency. If we do a road trip from the eastern part of Flores island (such as Maumere or Larantuka on the way to other western part of the island such as Bajawa and Ruteng), then we have to go through Ende and vice versa. So, we can describe that Ende is a transit city connecting the western and eastern part of Flores island. Transportation modes available in this regency have been already sufficient.

To reach Ende through air transportation mode, Haji Hasan Aroebesman Airport has been built to give service for this purpose. From marine transportation point of view, Ende Ocean Port is another alternative. As another county in Flores island such as Manggarai, East Manggarai, Sikka Regency, Ngada Regency, East Flores Regency, Nagekeo Regency, West Manggarai Regency, and Lembata Regency have potential of cultural variety of East Nusa Tenggara Province which are not clearly exposed.

The borders of Ende Regency are:

- North side is Flores Sea on Nangaboa and Ngalu Ijukate.
- South side is bordered by Sawu Sea and also on Nangaboa and Ngalu Ijukate.
- East side is bordering with Sikka Regency from north coast of Nangambawe, south towards of Hangamanuria and on Ngalu Ijukate.
- West side is bordering with Ngada Regency from north coast of Nanganiohiba towards the north central, south central towards of Wuse, Sanggawangarowa going along Nangambo River towards south coast also on Nangambo.

Ende Regency is 2046.60 km². Its administrative region consists of 21 district which are subdivided into 165 village (Desa) and 20 state governed villages (Kelurahan).

Table1.1. The Number of Citizen of Ende Regency in 2012

No	District	Male	Female	Number
1.	Nangapanda	9878	11121	20999
2.	Ende Island	3815	4224	8039
3.	Maukaro	3553	3782	7335
4.	Ende	8277	9256	17533
5.	South Ende	11750	11819	23569
6.	East Ende	8866	9336	18202
7.	Central Ende	13055	14920	27975
8.	North Ende	8678	9482	18160
9.	Ndona	6199	7148	13347
10.	East Ndona	2738	3136	5874
11.	Wolowaru	7368	8808	16176
12.	Wolojita	2921	3511	6432
13.	East Lio	4090	4495	8585
14.	Kelimutu	3200	4126	7326
15.	Ndori	2204	2680	4884
16.	Maurole	5649	5973	11622
17.	Kotabaru	5408	5327	10735
18.	Detukeli	3504	3706	7210
19.	Lepembusu Kelisoke	2344	3051	5395
20.	Detusoko	6189	7035	13224
21.	Wewaria	8271	8736	17007
Ende Regency		127957	141672	269629

East Nusa Tenggara is a province with most of its territory does not have fertile soil, poor in natural resources, and very dry in climate. It is the driest province in Indonesia. This ecological conditions cause difficulty for this province to rely on agricultural activity result, although this activity is still being done as the livelihood of local residents. Therefore, being civil servants is the main option for them. So, East Nusa Tenggara is also wellknown as the province of civil servants.

But, it does not mean that East Nusa Tenggara has no sufficient economic potential. A part of the citizens cultivate plantation and commercial crops such as chilli, coffee, cocoa, and cashew nuts which are sold to local market or inter mediary trader outside of island. Another options of livelihood are farming activity (especially cows and buffalos) and weaving and carving handycraft. Those business or activities are generally done on a small and and medium scale.

The number of SMEs in East Nusa Tenggara is fairly large. In 2002, the Central Bureau of Statistics reported that there were 11.767 SMEs in this province. Most are in Kupang (2.737 or 23,28%), while in Kupang is 550 SME (4.67%) and in Ende is 501 SME (4.26%). It does not include SMEs that are not identified. It is the real pulse of economy. Generally engaged in Kupang is manufacturing sector, such as furniture, silver, musical instruments, bound weaving, and brick stone. While Ende Regency makes cashew nut, cocoa, and bound weaving as excellent commodity. ([Http://www.andreasharsono.net/2005/12/media-ukm-dan-berita-seksi.html](http://www.andreasharsono.net/2005/12/media-ukm-dan-berita-seksi.html))

1.2 Formulation of Problems

Several problems formulated in this research were:

- a. Have SMEs applied accounting?
- b. What are the uses of accounting in financial management process?
- c. How to use accounting as a tool to improve the performance of SMEs?

1.3 Purposes of Research

Some purposes the research is going to reach are:

- a. helping small and medium scale enterprises understand the importance of accounting systems in their business.
- b. providing some information for beginners who want to start the business.
- c. providing some information about the usefulness of accounting in a business.

1.4 Benefits of Research

This research is conducted to:

- a. understand the importance of accounting in a business activity.
- b. understand the usefulness of accounting in small and medium scale business activities.
- c. understand the constraints typically encountered by small and medium scale businesses.

LITERATURE STUDY

2.1 Theoretical Basis

2.1.1 Small Scale Business

Definition of Small Scale Business

Small scale businesses are economic activities of the people in small-scale and meet the criteria of net worth or annual sales and ownership as regulated in this act: According to article 5, verse 1, criteria for small business are:

1. having a net worth of more than Rp. 50.000.000 up to a maximum of Rp 500.000.000 not including land and buildings.
2. having annual sales of more than Rp300.000.000 up to a maximum of Rp 2.500.000.000.
3. owned by citizen of Indonesia.
4. being independent, not subsidiaries or branches of companies owned, controlled by, or affiliated directly or indirectly with medium enterprises or joint venture.
5. being individual business enterprises, business enterprises without legal standing, business enterprises with legal standing and including cooperatives.

Some inherent or embedded characteristics of small scale business are:

- Generally, the type of products or commodities are not easily changed.
- Usually, its location to hold the business is settled.
- In general, financial administering process has been done although it is still in very simple form.
- There has been separation process between business finance and family finance. Business plan has also been settled.
- A business license and other legal requirements, including Tax Identification Number have been owned.
- The figure of business owner (employer or entrepreneur) has been endorsed by entrepreneurial capability.
- Some of them have been able to access to banks to get the loan for capital raising.
- The most have not been able to run good business management such as by making business plan.

In this matter, We can present some examples of small scale business, such as:

- farming activity run by an individual land owners who hires some employees.
- a merchant in grocery market (or agency) and the other traders.

- craftsmen of food and beverage, furnitures, wood and rattan, home equipments, garment, and handycraft craftsmen.
- chickens, ducks, and fish farm.
- small-scale cooperatives.
- boarding house business.

2.1.2 Medium Scale Enterprises

Definition of Medium Scale Business

Referring to Presidential Instruction Number 10 of 1998, medium scale business is a productive enterprises with such criteria:

1. independent and it is run by the individual or business entity that is not a subsidiary or branch company owned, controlled, and affiliated with a large scale enterprises.
2. having a net worth of more than Rp. 500.000.000 up to a maximum of Rp 10.000.000.000 including land and buildings.
3. achieving annual sales of more than Rp. 2.500.000.000 up to a maximum of Rp. 50.000.000.000.

Some inherent or embedded characteristics of medium scale business are:

- Generally, better, more organized, and even more modern management and organization with a clear division of tasks among others such finance, marketing and production has been owned.
- Having implemented financial management through accounting system regularly, So it can make it easier to be audited and to assessed and so to be inspected including by banks.
- Having obeyed the rules or managed labor organizations and so Social Security, health care, et cetera.
- Having fulfilled all legal requirements such neighbour permits, business licenses, spot permits, Tax Identification Number, environment management effort et cetera.
- Usually, it has been able to access bank financing sources.
- In general, well trained and well educated human resources have been owned.

Bellow, we can present some examples of medium scale businesses. They are:

- medium scale farmland, farms, plantations, and forestry.
- trading agency business (wholesale) including export and import agency.
- Sea Cargo services, garment factory, and inter provincial taxi and bus transportation services .
- food and beverage, electronics and metals industries.
- mountain stone for construction and artificial marble mining.

2.1.3 Accounting

Accounting is a process of recording done regularly to collect the data and financial information including assets, liabilities, equity, income and expenses, and the acquisition price and the delivery of goods or services, which is closed with preparing the financial statements of the balance sheet and income statement for each fiscal year ended (Sofyan Syafri Harahap. 2005). The accounting equation is expressed as:

$$\text{assets} = \text{liabilities} + \text{capital}$$

is the basis for financial recording in accounting.

Accounting cycle can be described as follows (Abubakar and Wibowo; 2004 : 3):

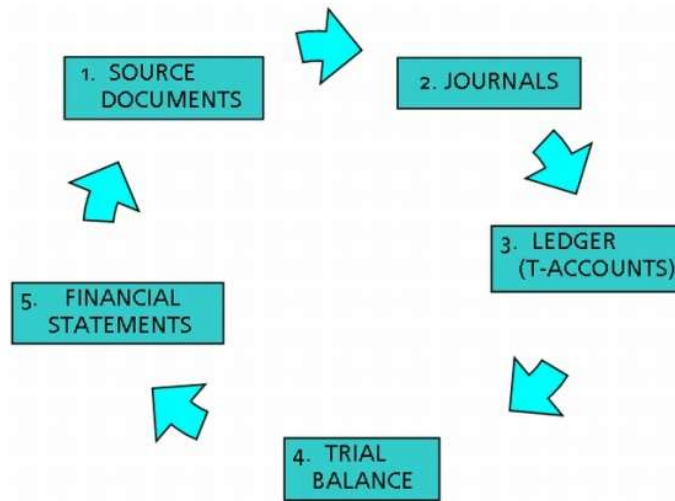


Figure 2.1. Accounting Cycle

2.2. Problems

The proportion of Indonesian SMEs in total Gross Domestic Product formation is about 60% where 42% is contributed by micro and small scale businesses and 18% is contributed by medium scale businesses. Implementation of regional autonomy concepts in regulations is an opportunity for SMEs reach the progress, and state-owned business enterprises as an agent of development is always urged to empower them.

Running a business both in small and medium scale must be endorsed by a proper financial management system. It is sometimes less recognized by the agents of start up SMEs. Such condition is also encountered by SMEs in South Rewarangga Village. They still implement messy and unwell-organized business management system. Good separation between personal and business finance has not been structured, yet. Such background of condition makes SMEs in this village are less able to develop their businesses.

The difficulty in obtaining valuable business information, as well as limitations in production and management techniques are also limiting factors to develop more than 100 SMEs in South Rewarangga and Mautapaga Village. The business owners and so managers do not understand the importance of accounting well, but it is very beneficial to develop their businesses.

Until the present, there so many SMEs that do not implement good bookkeeping for their businesses, including orderly financial reporting, so they do not understand the loss and the profit gained. Surely, such condition surely makes them unable to compete in local scope, moreover in global scope. To make them able to enter the global competition, there many significant preparations needed. But, they do not prepare strategic effort to get accurate information to develop their business.

DISCUSSION

Many SMEs still underestimate and consider that the accounting system is not important for their business. This assumption is underlied by several factors such as:

- a. Running family bussiness with less scale do not require good accounting system.
- b. lack of personal knowledge or skills related to accounting.
- c. absence of experts in accounting.
- d. business fund used is often mixed with their personal needs fund, or directly used to buy goods without accounting process previously.
- e. For them, accounting is considered too complicated and they must allocate more time for the job. So, it is very difficult to set aside the time to prepare accounting.
- f. limited activities of bussiness and so fixed income.

SMEs agent are still not aware that accounting is an important aspect of management to create a healthy financially healthy bussiness. No matter how little the financial information, it must must be properly recorded to present reporting evidence.

Therefore, in this matter the accountant's role will be very important for SMEs to help them providing some training and understanding of the importance of accounting and to give an understanding of how to record and to prepare good financial report. Good process of accounting will be able to give them advantage, such as systematic bussiness financial information that can make the donors of fund give more trust.

Under influence of large bussiness environment, every small and medium scale bussiness enterprises that want to make the progress must increase the capability in every aspect to win competition. The competition they have to face is not in domestic scope, but also in global enviroment.

Market globalization itself can give a positive impact on the progress oh their bussinesses and so competitiveness in a particular economic sector or industry. Responding this phenomenon, the accountants must also improve their ability for this purpose.

Accountants are not urged to train SME in financial reporting only. But, they also must give valuable advice about how to win bussiness competition by providing non financial information such as inter bussiness process, growth learning, and so customers satisfaction.

SMEs Financial Management

Financial problem is often a big problem for the agents of small and medium scale bussiness. Doing business is not just a matter of getting the money. But, it is also related with how to control and spend. Many employers with achievement of quite large financial result without cash money left from the bussiness. It is caused by their inability to manage financial aspects well.

Managing bussiness finance are important things, especially if we can achieve great number of income. Thus, we have to try to start a gradual, and consistent way. Undoubtedly, our financial condition will be better than before. Here are several steps to manage bussiness finance, including:

- **Give focus and be specific**

For those of us who are just starting to run the bussiness, we need to learn financial management step by step. Many things need our concern to manage such as debt problems, insurance, investments, financial heritage, and others. We should need to learn and choose to focus on the more important issues first. For example, if we have no savings, then we need to focus on investment. Or we are in need of health insurance because many employees who depend on your life. If it has been resolved, then we must move to the next problems. By paying attention to one of our focus, we will be more comfortable in running a bussiness.

- **Separate personal fund with the fund to run the bussiness**

Classical problem in running bussiness is ignorance of how to separate personal fund with the fun we gain from the bussiness. Sometimes, we think that our bussiness is relatively small and it has no effect if they are mixed.

It is actually very risky, because our income gained from the bussiness will most likely be used for personal financial affairs, and vice versa. So manage our fund wisely by separating personal fund with the fund to run the bussiness. Save money in two different places. It will be safer if we keep the money in the bank, of course, by opening a new account specifically for our bussiness fund.

- **Calculate and planned use of funds**

Calculating the profit is an unforgettable aspect. Financial calculations can be done just before we close the shop. Know the costs of our bussiness such as profit per day or depreciation costs. Additionally, we need to take into account the costs to be incurred in the following days such as the cost of the tax payment and interest on the loan. The financial plan is very important to note.

If we are careless in money using, we will be always in shortage. Something we need to consider is profit and loss calculation. Do not forget to plan for expenditure in accordance with the sales and cash acquisition target.

- **Create a neat bookkeeping**

We may not be able to remember continuously how much our profit or how much our spending. Therefore, accounting has the important role in arranging our finance. This book contains details of revenues, expenses, and costs of our finances.

In addition, accounts payable and fixed assets should be also included in the book. Record neatly and it will be better if it is prepared in the computerized system. With neat bookkeeping, we will be easier to control and evaluate the progress of the bussiness.

- **Monitor our acceleration of investment**

Most people just do top-up investment without watching it routinely. They considered that without attention, their investment will increase continuously.

In the real fact, an investment effort sometimes is stagnate in only one point in a long time. Surely, it is something unfavourable. Therefore, do monitoring at least once in a year.

- **Immediately pay off our debt**

Money lending to develop the business is still something unavoidable and it is the normal matter. However, our life will not be comfortable if we are still hampered by debt, especially if our financial condition are unstable.

Therefore, think carefully how to pay off our debt. For those who have never borrowed the money, try to reduce the risk of debt.

Generally, the SMEs activities only emphasize on the production and marketing, while financial reporting activities they usually ignore. As long as they are still able to produce and sell, the business is still able to run. The activities of financial statements preparation is still considered as something complicated and not equal with its usefulness. Thus, SMEs do not understand exactly how much revenue (cash revenue) which should have been received, how many operating costs that should be spent and how many profit that should be remained.

All they know is usually just a cash amount that they now receive, the cash amount that now they spend and the cash amount remaining in the hands (cash on bank). Even if there are planning activities, usually it is not arranged in an orderly manner so they had difficulty how to allocate actual funds (cash amount of funds).

The problems increasingly be more complex along with the greater size of the business activities. With the growing of business size, SMEs agents become no longer able to directly monitor their on-going business activities. They can no longer directly monitor the amount and activity of production employees, the amount and activity of the sales department, the number and condition of fixed assets and others. These problems can be solved by financial statements and then analyze them further.

There are many benefits if SMEs prepare financial information (financial reports). They are:

1. **knowing the information about the financial position, financial performance, and changes in owner's equity in the past.**

Based on the information described in balance sheet, SMEs will understand how much cash remained, how many accounts receivable which are not yet collected, how many the value of supply that is remained, how many the value of equipment, buildings, and motor vehicles owned, how much debt that has to be paid and how the position of the current capital owners.

From the income statement, SMEs will understand how much revenue which is generated, whether the income derived from the sale of goods or services or additional income. SMEs agents can find out how much the salary which has been paid, how much merchandise that has been purchased, and how many other costs that have been incurred. Finally, from the income statement how much the profits generated or losses incurred can be calculated accurately. From capital statements, they can calculate how much the capital before the activity is done, how many enhancements, how many reduction, and finally how much capital remained at the end of the period.

2. **being one of significant consideration means in making decisions**

The data in the financial statements can be used for decision making in the future. Too large accounts receivable on the balance sheet is one of the consideration on whether the debt collecting section reactivated. Total net income in the income statement is one of main considerations for decision making about the distribution of dividends and business expansion decisions.

3. **knowing the value of changes in cash and distribution**

Based on the cash flow statement, SMEs will know how much the value of the increase (or decrease) in cash in one period. In addition, where the cash resources come from, where the cash must be allocated, and how much cash acquisition and expenditure can be identified.

4. meeting one of the requirements in applying credits to financial institutions

Audited financial statements often become one of the conditions when SMEs is applying loan from financial institutions. The financial statements are absolute to be presented for SMEs with amount of assets that are less than required. Another requirement that financial institutions request are monthly financial statements and cash flow projections.

5. another advantages of financial statements are one of main consideration for tax reporting, cash budgeting, selling price settlement, and break-even analysis.

In order that financial statements is able to describe more in-depth financial condition, the report should be analyzed by connecting one financial statement item with other financial statement items, both inter financial statement and in just one financial statement. This activity is known as financial statement analysis.

By comparing the short-term debt and short-term assets, the ability of SMEs to repay short-term debt can be known. Through comparing the net income and sales how the contribution of sales to SMEs profits can be understood. How many times the accounts receivable turnover of SMEs in one year can be counted by comparing sales with account receivable.

CONCLUSION

Many people often think that accounting is less important when they make a purchase of an item. So, they ignore the evidence that is supposed to be an attachment of accounting records. Small and medium scale business owners neglect the importance of accounting process for their business because of the misperception that accounting is only for big companies.

How great our business, accounting is very necessary if we want your business thrive. In addition, many advantages can created from implementation of good accounting system. Slightly any transaction that occurs and any simple method of accounting that is used, the information generated from the accounting process will provide relevant good effect for sustainability of SMEs.

BIBLIOGRAPHY

Collier, P. M. (2009). *Fundamentals of Risk Management for Accountants and Managers*. Burlington, MA 01803, USA, Butterworth-Heinemann.

Fahmi, Irham, (2011). *Analysis of Financial Performance*. New York: Alfabeta.

Mubarok Abdullah, M. Faqihuddin (2010): *Financial Management for Small and Medium Enterprises*.

Wernerfelt, B., (1984). A resource-based view of the firm, *Strategic Management Journal* 5 (2), 171-180.

White, G.P., (1996). A meta-analysis models of manufacturing capabilities. *Journal of Operations Management* 14, 315-331.

Williams, FP, D'Souza, DE, Rosenfelt, ME, Kassae, M. (1995). Manufacturing strategy, business strategy and firm performance in a mature industry. *Journal of Operations Management* 13, 19-33.

Yuliana (2009). *Analysis of Competitive Strategy in SMEs milkfish Heilbron Elrina Semarang*. Faculty of Economics and Business, University of Diponegoro, eprints.undip.ac.id.

Zollo, M. and Winter, S.G., (2002). Deliberate learning and the evolution of dynamic capabilities, *Organization Science* 13 (3), 339-351.

<http://createourhappiness.blogspot.com/2011/06/pentingnya-akuntansi-untuk-usaha-mikro.html>

hartfay.blog.binusian.org/

<http://tariles41.blogspot.com/2010/04/pengertian-dan-kriteria-usaha-kecil-dan.html>
<http://galeriukm.web.id/news/kriteria-usaha-mikro-kecil-dan-menengah-umkm>
<http://med258046.blogspot.com/2011/12/makalah-bisnis-tentang-akuntansi-pada.html>
<http://keuanganlsm.com/pengelolaan-keuangan-bagi-ukm/>
<http://www.seputarukm.com/tips-mengatur-keuangan/>