# THE ROLE OF ACCOUNTING IN THE GROWTH OF MSMES IN INDONESIA

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**Abstract**

*Accounting is crucial to the growth of MSMEs in Indonesia, as it provides accurate financial information, facilitates planning, enhances credibility, and ensures tax compliance. However, many MSMEs still lack a basic understanding of accounting, which hinders their business development due to a lack of comprehension of financial records. This research aims to examine the role of accounting in Micro, Small, and Medium Enterprises (MSMEs) and the factors that influence their growth in Indonesia. This research employs a qualitative approach, utilizing a literature study method that draws on the latest scientific articles from the past decade and credible e-books to examine the role of accounting in MSMEs and the factors influencing their growth in Indonesia. The results indicate that accounting plays a crucial role in supporting the growth of MSMEs in Indonesia by providing accurate financial information and facilitating effective planning and resource management. Various internal factors, including the quality of human resources, financial aspects, technical operations, and marketing, also influence the growth of MSMEs. External factors include government policies, socioeconomic and cultural conditions, and the role of institutions. This study aims to provide recommendations for MSME actors and policymakers to enhance effective accounting practices for sustainable economic growth.*

## INTRODUCTION

Globally, Micro, Small, and Medium Enterprises (MSMEs) play a vital role in driving economic growth and creating jobs. According to a World Bank report, micro, small, and medium-sized enterprises (MSMEs) account for more than 90% of businesses and over 50% of employment worldwide. However, many MSMEs in developing countries, including Indonesia, still face significant challenges in business management, particularly in the areas of financial recording and reporting. One of the crucial global issues is the low accounting literacy among MSME actors, which has a direct impact on their inability to access formal financing, make strategic decisions, and survive in a climate of intense competition.

Micro, Small, and Medium Enterprises (MSMEs) have a vital role in Indonesia's economic growth. (Windusancono, 2021). MSMEs are one of the primary pillars that significantly contribute to job creation and poverty alleviation. (Syahputra et al., 2023). However, many MSMEs face challenges in financial management. One crucial aspect that can help overcome these challenges is the implementation of good accounting. (Zubaidah et al., 2024). With structured accounting, MSMEs can gain a clearer understanding of their financial position, enabling them to make informed decisions. (Nuvitasari et al., 2019).

Accounting serves as a tool to record and report all financial transactions that occur in a business. (Iwan Kesuma & Setiawaty, 2016). Through accurate financial statements, MSME owners can periodically evaluate their business performance. This enables them to track the profits and losses generated, as well as develop strategies to enhance performance in the future. (Azahra, 2023; Fahmi et al., 2025). Without good accounting records, MSMEs are at risk of bankruptcy due to improper financial decisions. Additionally, accounting plays a crucial role in enhancing the credibility of MSMEs in the eyes of investors and financial institutions. (Safrianti & Puspita, 2021). With transparent and regular financial statements, MSMEs can more easily meet credit application requirements. This report demonstrates that the business is well-managed and has growth potential. (Hasan, 20222; Jawanri Citra P. Situmorang, 2015). This is particularly important, considering that access to capital is one of the primary obstacles faced by many MSME actors.

The implementation of Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) also guides MSMEs in compiling their financial statements. (Amilia et al., 2020). By following this standard, MSMEs can produce more structured and compliant reports that meet applicable regulations. This not only makes it easier for business owners to manage their finances but also increases their chances of securing support from external parties, such as investors or banks. Overall, the role of accounting in the growth of MSMEs in Indonesia is vital. (Amilia et al., 2020). With a good understanding and application of accounting, MSME actors can enhance operational efficiency, mitigate financial risks, and capitalize on more significant growth opportunities. (Nurhasanah et al., 2023). Therefore, education and training in accounting must be strengthened to empower MSME actors to manage their businesses more effectively and sustainably. (Munzirwan, 2024).

According to Riadi, in theory, the entity of an organization, including MSMEs, is considered a separate entity from its owner. (Riadi, 2020). This theory emphasizes the importance of accurate financial recording and reporting to provide relevant information for decision-making. (Riadi, 2020). In the context of MSMEs, the implementation of accounting by standards, such as the SAK EMKM published by the Indonesian Accounting Association (IAI) in 2016, is crucial. (Berry, 2023). SAK EMKM aims to increase the transparency and accountability of MSME financial reporting, thereby encouraging sustainable growth (Berry, 2023). Thus, entity theory supports the view that accounting plays a crucial role in enabling MSMEs to manage their finances effectively and enhance their credibility in the eyes of external parties. (Riadi, 2020).

Dwiastanti & Mustapa stated that three factors allow MSMEs to survive amid a crisis economic condition. (Dwiastanti & Mustapa, 2020). First, MSMEs typically produce goods and services that cater to the community's immediate needs. Second, MSME actors utilize local resources, including human capital, financial capital, raw materials, and equipment. The third factor is that bank loans do not support MSME businesses; instead, they provide them with funds. (Dwiastanti & Mustapa, 2020). However, good fund management is the primary key to the success of MSMEs (Nanda & Ompusunggu, 2023). The application of sound and correct accounting, as per accounting standards such as SAK EMKM, is necessary so that MSMEs can easily prepare their financial statements. (Purba, 2019). Financial statements enable MSME actors to access financial assistance and track the development of their businesses. (Purwanti, 2017).

This research presents a novel approach to the role of accounting in MSMEs, encompassing not only financial recording systems but also serving as a tool for empowerment, efficiency enhancement, capital access, and trust from external parties. This study also highlights differences in the perception and implementation of accounting among MSMEs based on the latest literature data.

The urgency of this research stems from the growing importance of MSMEs as the primary drivers of post-pandemic economic recovery and digital transformation. Without adequate financial management, the contribution of MSMEs to Gross Domestic Product (GDP) and job creation can be hampered. Therefore, understanding the role of good accounting is key in encouraging the sustainable growth of MSMEs.

The purpose of this study is to investigate the role of accounting in the growth of MSMEs in Indonesia and to identify the factors that influence the effectiveness of accounting implementation within the MSME sector. The benefits of this research are to provide strategic recommendations for MSME actors to improve the quality of their financial management, as well as to serve as a reference for policymakers in formulating relevant and applicable accounting literacy improvement programs.

## METHOD

This study employs a qualitative approach, utilizing a literature review method to gather in-depth insights into the phenomenon of accounting's role in MSMEs and the factors influencing the growth of MSMEs in Indonesia. This method was chosen because the researcher wanted to dig deeper and understand the role of accounting in the growth of MSMEs in Indonesia. The data used are sourced from a variety of reliable sources, including the latest scientific articles from the past decade and credible *e-books*. Source searches are conducted using keywords such as "Accounting role" and "Growth of MSMEs" in e-book databases and article repositories. The data were analyzed using qualitative analysis methods, including comparative analysis, data categorization, thematic coding, synthesis of findings, and mapping of patterns and trends. This study aims to produce a comprehensive and in-depth analysis of the role of accounting in MSMEs and the factors that influence the growth of MSMEs in Indonesia using this method. The expected results of this study can provide recommendations for MSME actors and policymakers to enhance effective accounting practices, promoting sustainable economic growth.

## RESULT AND DISCUSSION

Based on source searches conducted from the internet and databases such as the latest scientific articles of the last 10 years and *credible e-books*, the results of research on the role of accounting in MSMEs and the factors that affect the growth of MSMEs in Indonesia are presented in Tables 1 and 2 as follows:

**Table 1: The Role of Accounting in the Growth of MSMEs**

| It | Role |
|---|---|
| 1. | Accurate financial information. |
| 2. | Support planning and budgeting. |
| 3. | Increase credibility. |
| 4. | Ensure compliance with tax regulations. |

Source: (Ariana et al., 2023)

**Table 2: Factors Affecting the Growth of MSMEs**

| It | Factor | Information |
|---|---|---|
| 1. | Internal factors | The quality of human resources, financial aspects, operational technical, and marketing. |
| | | Government policies, socio-economic and cultural conditions, and the role of institutions. |
| 2. | External factors | |

Source: (Alex Sandra & Purwanto, 2015)

## Discussion

### The Role of Accounting in the Growth of MSMEs

Accounting plays a crucial role in supporting the growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Accounting provides accurate and transparent financial information. (Ariana et al., 2023). With sound financial records, MSME owners can gain a thorough understanding of their business's financial condition. (Yolanda et al., 2023). This information includes income, expenses, assets, and liabilities, all of which are crucial for informed decision-making. (Nugroho, 2021). Without a clear understanding of the financial aspect, MSMEs risk difficulties in managing their resources. (Rachmawati, 2024).

Good accounting practices help MSMEs in planning and budgeting. (Ariana et al., 2023). With regular financial reports, business owners can plan short-term and long-term business strategies. (Rina Fariana et al., 2024). For example, MSMEs can determine the allocation of funds for investment in new equipment or product development based on cash flow analysis. (Rachmawati, 2024). This is crucial to ensure that MSMEs can survive and thrive in a competitive market. Careful planning also enables MSMEs to anticipate potential risks and implement the necessary mitigation measures. (Husna et al., 2024).

Additionally, accounting plays a crucial role in enhancing the credibility of MSMEs in the eyes of stakeholders, including banks and investors. (Ariana et al., 2023). Well-prepared financial statements can serve as a valuable tool to demonstrate business performance to external stakeholders. (Ningtyas, 2023). When MSMEs seek to apply for a loan or secure investors, maintaining accurate accounting records increases their chances of securing financial support. (Noriska & Tineka, 2023). This credibility is crucial because access to capital is often the primary obstacle to the growth of MSMEs in Indonesia. (Rahman & Aprison, 2022).

Accounting plays a crucial role in ensuring compliance with tax regulations. (Ariana et al., 2023). With a sound accounting system, MSMEs can calculate their tax liabilities in a timely and accurate manner. (Saputra & Meivira, 2020). This not only helps them avoid sanctions from the authorities but also provides an opportunity to take advantage of tax incentives that may be available to small businesses. Thus, effective accounting practices not only support the internal growth of MSMEs but also strengthen their position in the broader business ecosystem. (Saputra & Meivira, 2020).

### Factors Affecting the Growth of MSMEs in Indonesia

The growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia is influenced by various internal and external factors. (Alex Sandra & Purwanto, 2015). One of the crucial factors for MSMEs is the strengthening of the capital sector. Capital assistance can take the form of easy loans from financial institutions or revolving capital support from the government through cooperatives, particularly for micro and small businesses. (Laughs, 2017). Access to adequate capital allows MSMEs to develop their businesses, increase production, and expand market reach. (Yolanda, 2024).

Internal factors, including the quality of human resources, financial aspects, operations, technology, and marketing, also play a significant role.(Alex Sandra & Purwanto, 2015). The quality of competent human resources (HR), sound financial management, efficient production processes, and effective marketing strategies will encourage the growth of MSMEs (Rosari et al., 2022). The quality of human resources can be enhanced through education and training, resulting in a positive impact on the income of MSMEs. (Gunawan et al., 2021).

In addition to internal factors, external factors such as government policies, socio-economic and cultural conditions, and the role of related institutions also have a significant influence. (Alex Sandra & Purwanto, 2015). Government policies that support MSMEs, such as tax incentives, loan interest subsidies, and credit restructuring, can provide a stimulus for the growth of these small and medium-sized enterprises. (Edy Sutrisno, 2021). The involvement of related parties, such as government agencies and institutions that facilitate equipment or media assistance for the production and marketing process, is also significant. (Sentiago & Hidayatulloh, 2019).

In addition to internal and external factors, product innovation and the use of information technology are also important factors in the development of MSMEs (Kurdish & Firmansyah, 2020). MSMEs that can create innovative products and utilize information technology for marketing and business management have a more significant competitive advantage. (Ratiyah et al., 2021). Support from local governments and banks is also necessary to address the primary challenges faced by MSMEs, including the quality of human resources, access to capital, and product innovation. (Sedyastuti, 2018).

## CONCLUSION AND RECOMMENDATION

Accounting plays a central role in the growth of MSMEs in Indonesia by providing accurate financial information, supporting planning and budgeting, increasing credibility in the eyes of stakeholders, and ensuring compliance with tax regulations. Effective accounting practices enable MSMEs to manage their resources more efficiently, access capital, and improve their position in the broader business landscape, thereby contributing to sustainable economic growth. The growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia is influenced by various internal and external factors that are interrelated. Internal factors encompass the quality of human resources, financial aspects, operational and technical aspects, as well as marketing. On the other hand, external factors such as government policies, socio-economic and cultural conditions, and the role of institutions also play a significant role in providing stimulus for growth. Additionally, product innovation and the effective use of information technology are key to creating a competitive advantage. Therefore, synergy between strengthening the capital sector, improving the quality of human resources, and support from the government and related institutions is urgently needed to overcome the challenges faced by MSMEs and encourage their sustainable growth. Suggestions for further research include that the Government, educational institutions, and community organizations should conduct training and provide assistance to MSME actors to enhance their understanding of accounting and financial reporting.

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