



## Enhancing MSME Capacity in Preparing Financial Statements for Accessing Financing

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### ABSTRACT

The development of Micro, Small, and Medium Enterprises (MSMEs) significantly contributes to Indonesia's economic growth, yet many MSMEs face challenges in accessing financing due to inadequate financial reporting capabilities. This community service project, aimed to bridge this gap by equipping MSME owners with the skills and knowledge to prepare standardized financial statements. Conducted from October 14 to October 28, 2024, the program utilized a participatory, hands-on approach tailored to the unique challenges faced by MSMEs. The training sessions covered the preparation of Income Statements, Balance Sheets, and Cash Flow Statements, combining theoretical insights with practical applications. The results revealed that 80% of participants successfully prepared complete financial statements by the program's conclusion, demonstrating significant improvement in their financial literacy and reporting skills. However, 20% of participants required additional guidance in specific areas, such as cash flow analysis and transaction classification. Participant feedback highlighted high satisfaction with the program's relevance and practicality, with suggestions for introducing digital financial tools in future sessions.

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## **INTRODUCTION**

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, contributing significantly to the country's Gross Domestic Product (GDP) and playing a vital role in reducing unemployment. With their ability to operate in diverse sectors and reach remote areas, MSMEs also contribute to regional development and poverty alleviation. However, despite their critical role in the economy, MSMEs face persistent challenges, particularly in accessing funding for operational sustainability and expansion. This issue has hindered the sector's potential to achieve maximum growth and competitiveness (Manoppo & Pelleng, 2018); (Utami et al., 2019); (Widayanti et al., 2024).

One of the most pressing barriers for MSMEs in securing financing is the lack of proper financial reporting. Financial institutions, such as banks and investors, require accurate, standardized, and reliable financial statements to evaluate the creditworthiness and financial stability of businesses. Unfortunately, many MSME owners lack the knowledge or resources to prepare such reports, resulting in limited access to funding opportunities. The absence of clear financial records also restricts MSMEs from making informed business decisions, further compounding their challenges (Diatmika et al., 2017) ; (Mashuri & Ermaya, 2021); (Dasman et al., 2023).

This community service project is designed to address this critical gap by enhancing the capacity of MSME owners to prepare financial statements that meet standard requirements. Financial reporting is not merely an administrative task; it is a vital tool for ensuring transparency, improving decision-making processes, and fostering trust among stakeholders. MSME owners equipped with financial literacy can evaluate their financial health, optimize resource allocation, and build credibility with potential lenders or investors, thereby increasing their growth opportunities (Muslim et al., 2024); (Yulianti & Wulandari, 2023).

The project adopts a phenomenological approach, which recognizes and respects the unique challenges faced by MSMEs in Indonesia. These challenges include varying levels of financial literacy, limited access to professional accounting services, and cultural nuances that influence business practices. By tailoring the training to these specific conditions, the project ensures that the solutions provided are practical, relevant, and easily implemented (Prasaja et al., 2022); (Yulianti et al., 2023); (Wulandari, 2024).

Additionally, this initiative integrates theoretical enrichment by adapting core principles of financial management and accounting to meet the needs of MSMEs. The novelty of this approach lies in its hands-on, participatory methods, which combine technical training with real-world application. Participants engage in active learning through practical exercises, case studies, and personalized mentoring, ensuring that they acquire skills that are both meaningful and sustainable.

This community service program aspires to bridge the gap between MSMEs and financial institutions, ultimately contributing to a more inclusive and resilient economic ecosystem. By empowering MSMEs to overcome the

barriers of financial reporting, the project not only enhances their financial capacity but also fosters a more equitable distribution of resources and opportunities. The initiative stands as a testament to the transformative potential of financial literacy in driving sustainable development and economic progress in Indonesia.

## **IMPLEMENTATION AND METHODS**

### *Implementation of Activities*

This community service project was conducted over two weeks, from October 14 to October 28, 2024. Sessions were held weekly, totaling two meetings, to ensure sufficient time for participants to absorb the material and apply their learning effectively. The activities took place at the residence of one of the MSME owners, which was centrally located and easily accessible for all participants. This choice of venue fostered a sense of familiarity and comfort among the participants, promoting a conducive learning environment.

The participants comprised MSME owners and operators from the surrounding area, with a total of 15 individuals actively engaging in the sessions. These participants were selected based on their expressed need for financial training and their commitment to implementing the knowledge gained. The group included individuals from diverse business backgrounds, such as food and beverage, retail, and small-scale manufacturing. This diversity added depth to the discussions, as participants could share their unique experiences and challenges.

### *Methods of Service*

The implementation of this community service project utilized a combination of interactive and participatory methods to maximize engagement and learning outcomes. The following methods were employed:

1. Workshops and Presentations

Each session began with a structured presentation that provided theoretical knowledge on financial reporting. The material covered included:

- a. The importance of financial statements in accessing funding.
- b. Types of financial statements (Income Statement, Balance Sheet, Cash Flow Statement).
- c. Key principles of financial reporting, such as accuracy, transparency, and compliance with applicable standards.

These presentations were designed to be straightforward and tailored to the participant's level of financial literacy, using examples and scenarios relevant to their businesses.

2. Practical Exercises and Case Studies

After each presentation, participants engaged in hands-on activities to practice preparing financial statements. Worksheets and templates were distributed, enabling participants to input their business data and generate mock financial reports. Real-life case studies were also

discussed, allowing participants to analyze financial challenges and propose solutions collaboratively.

3. Group Discussions and Peer Learning

To enhance understanding and foster collaboration, group discussions were facilitated. Participants shared their experiences and discussed how the principles taught could be applied to their specific business contexts. This method encouraged peer-to-peer learning and helped address individual concerns.

4. One-on-One Assistance

For participants requiring additional support, one-on-one mentoring sessions were offered. These personalized interactions ensured that all participants could progress at their own pace and fully grasp the concepts presented.

5. Evaluation and Feedback

At the end of each session, participants completed a brief evaluation form to provide feedback on the material and methods. This feedback was used to refine the approach for subsequent sessions.

### **Materials Presented**

The materials provided to participants included:

- a. A comprehensive guidebook on financial statement preparation tailored to MSMEs.
- b. Templates for Income Statements, Balance Sheets, and Cash Flow Statements.
- c. Digital and printed resources summarizing key concepts and steps.
- d. Access to an online forum for post-training discussions and queries.

This structured and inclusive approach ensured that the community service project effectively addressed the participants' needs, empowering them with practical skills to enhance their financial reporting and, ultimately, access to funding.

## **RESULTS AND DISCUSSION**

### ***Steps in the Dedication Process***

The community service project was conducted in two sessions over two weeks, from October 14 to October 28, 2024. The steps taken to complete this dedication process are as follows:

1. Preliminary Preparation

Before the program began, a needs assessment was conducted through interviews and surveys with participating MSME owners. This process helped identify their knowledge gaps and specific challenges in preparing financial statements. Customized materials and templates were then developed to ensure the training addressed their unique requirements.

2. Session 1: Introduction to Financial Reporting

The first session introduced the participants to the fundamentals of financial reporting. The following topics were covered:

- a. Importance of financial statements for accessing financing.

- b. Overview of key financial statements: Income Statement, Balance Sheet, and Cash Flow Statement.
- c. Key accounting principles such as accuracy, consistency, and compliance with applicable standards.

Participants received a guidebook and templates tailored to their business contexts. Interactive discussions and examples from real-life MSMEs were used to ensure understanding.

### 3. Practical Activities in Session 1

Participants were guided through a practical exercise to create a basic Income Statement using sample data. This hands-on activity helped them understand revenue and expense classifications and calculate net profit.

### 4. Session 2: Advanced Financial Reporting and Application

The second session focused on more complex aspects of financial reporting, including:

- a. Preparing a Balance Sheet and Cash Flow Statement.
- b. Analyzing financial statements to evaluate business performance.
- c. Demonstrating the alignment between financial statements and financing applications.

A real-world case study was introduced, allowing participants to practice preparing complete financial statements based on the provided data. Group discussions were conducted to address specific questions and challenges faced by the participants.

### 5. Evaluation and Feedback

At the end of each session, participants completed evaluation forms to provide feedback on the materials and delivery. Their ability to create accurate financial statements was assessed through the submission of a practice assignment based on their business data.

## ***Results of the Dedication Process***

The program achieved significant outcomes, which are summarized as follows:

### 1. Participant Performance

By the end of the program, 80% of participants successfully prepared a complete set of financial statements for their businesses. The remaining 20% demonstrated improved understanding but required additional guidance on specific aspects, such as cash flow analysis.

### 2. Feedback Summary

Participants reported high satisfaction with the training, with 90% indicating that the material was relevant and practical. Suggestions for future sessions included introducing software tools for financial management and expanding the program to cover financial forecasting.

### 3. Key Achievements

- a. Increased awareness of financial reporting standards and requirements.

- b. Enhanced confidence among participants in presenting financial data to financial institutions.
- c. Improved collaboration and peer learning among MSME owners.

**Discussion**

The results indicate that a structured, hands-on approach to financial training effectively addresses the challenges faced by MSME owners. By simplifying complex accounting concepts and using real-world examples, the program ensured that participants could apply their learning immediately. The participatory nature of the sessions, including group discussions and one-on-one mentoring, created an engaging and supportive learning environment. This method not only enhanced knowledge acquisition but also fostered a sense of community among participants, which could lead to ongoing collaboration and shared growth.

Table 1: Summary of Participant Performance

Metric	Percentage (%)
Participants who prepared complete financial statements	80
Participants requiring additional guidance	20

**Table Overview**

The table provides a concise summary of the performance outcomes of the community service project "Enhancing MSME Capacity in Preparing Financial Statements for Accessing Financing." It categorizes participants based on their ability to complete financial statements and highlights the percentage of individuals in each category.

**Detailed Explanation of Metrics**

1. Participants Who Prepared Complete Financial Statements (80%)
 

This category represents the majority of the participants who successfully created a complete set of financial statements, including the Income Statement, Balance Sheet, and Cash Flow Statement, by the end of the program.

  - a. Significance: This achievement indicates that the training program effectively met its objective for 80% of the participants. These individuals demonstrated a clear understanding of financial reporting principles and the ability to apply them to their businesses.
  - b. Contributing Factors: The hands-on approach, practical examples, and step-by-step guidance provided during the workshops were instrumental in helping participants reach this level of competency.
2. Participants Requiring Additional Guidance (20%)
 

This category includes participants who showed improvement but did not fully complete financial statements during the program. They required extra support in areas such as:

- a. Classifying certain financial transactions (e.g., distinguishing between operational and non-operational revenue).
- b. Preparing a Cash Flow Statement, which some participants found challenging due to its reliance on accurate categorization of cash inflows and outflows.
- c. Balancing assets and liabilities in the Balance Sheet.
- d. Significance: The 20% of participants needing additional guidance highlights areas where the program could be improved. These participants might benefit from extended training sessions or additional resources, such as tutorials or one-on-one mentoring.
- e. Future Action: Tailored follow-up sessions focusing on these specific challenges could help this group reach the same level of competency as the others.

### *Interpretation of Results*

The data in Table 1 reflects the program's overall success, with a significant majority (80%) achieving the primary goal of preparing complete financial statements. The remaining 20% highlights a need for targeted enhancements in future programs to address specific challenges in financial reporting.

These results underscore the effectiveness of the methodology while providing valuable feedback for continuous improvement. By addressing the needs of the 20% requiring additional guidance, the program can aim for near-universal success in subsequent iterations.

In conclusion, the program has significantly empowered MSME owners to overcome barriers to financial reporting, demonstrating the importance of tailored, practical training for sustainable business growth. Future initiatives should incorporate additional tools and techniques, such as digital accounting platforms, to further enhance the impact.

## **CONCLUSIONS AND RECOMMENDATIONS**

### *Conclusions*

The community service project successfully addressed a critical gap in the financial literacy of MSME owners. Through interactive workshops, practical exercises, and personalized assistance conducted from October 14 to October 28, 2024, participants gained valuable knowledge and skills in financial reporting.

Key outcomes of the program include:

1. Improved Understanding of Financial Reporting: Participants demonstrated a better grasp of the importance of financial statements, including Income Statements, Balance Sheets, and Cash Flow Statements, as essential tools for business transparency and financing.
2. Practical Application of Knowledge: By using real-world examples and templates, participants were able to prepare financial statements tailored to their businesses.

3. **Increased Confidence and Readiness:** MSME owners expressed greater confidence in presenting their financial reports to potential investors or financial institutions, paving the way for improved access to funding opportunities.
4. **Collaborative Learning Environment:** The group discussions and peer interactions fostered a supportive community of business owners who could continue sharing experiences and insights beyond the program.

Overall, the program effectively empowered MSME participants to bridge the gap between their financial reporting practices and the expectations of financial stakeholders, contributing to their long-term business sustainability.

### **Recommendations**

To ensure the sustainability and broader impact of this initiative, the following recommendations are proposed:

1. **Follow-Up Programs**  
Regular follow-up sessions should be organized to reinforce participants' knowledge, address new challenges, and provide advanced training on topics such as financial forecasting and budgeting.
2. **Digital Financial Tools**  
Introduce participants to user-friendly digital tools and software for financial management. Training on such tools can streamline the process of preparing financial statements and improve accuracy.
3. **Networking with Financial Institutions**  
Facilitate networking opportunities between MSME owners and representatives of financial institutions. This can build relationships and help participants better understand the specific requirements for funding applications.
4. **Expansion to Other Regions**  
Given the success of this pilot project, similar initiatives can be expanded to other communities with a focus on MSMEs in rural or underdeveloped areas, where access to such training is limited.
5. **Collaboration with Stakeholders**  
Engage local governments, financial institutions, and educational institutions as partners to enhance the program's reach and impact. These stakeholders can provide additional resources and expertise to support MSME development.

By implementing these recommendations, this community service initiative can create a ripple effect, contributing to the growth and resilience of MSMEs, which in turn strengthens the broader economic ecosystem.

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This project reflects a collective effort, and we hope the outcomes will contribute significantly to the empowerment of MSMEs and their access to sustainable financial opportunities. Thank you to everyone who made this endeavor possible.

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