



Application of ISAK 35 for non-profit organizations a study on foundations in Indonesia

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ABSTRACT

Financial reporting standards for non-profit organizations are not explicitly regulated in Financial Accounting Standards (SAK), but the Accounting Standards Board (DSAK) issued Interpretation of Financial Accounting Standards (ISAK) 35. ISAK 35 contains guidance for the Presentation of Financial Statements of Non-profit Oriented Entities. The foundation is a part of a non-profit organization. This study aims to determine the arrangement, form and content of financial statements in one of the foundations of non-profit organizations in Jakarta based on ISAK 35. This research method uses a qualitative approach and descriptive method to analyze the application of ISAK 35 to one of the foundations in Jakarta, related to the presentation of financial statements non-profit-oriented entity for the 5 years in the period 20X1-20X5. The results of this study indicate that the foundation's financial reports are not in accordance with applicable standards and there is weak internal control over financial transactions.

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1. INTRODUCTION

Accountability is a fundamental concept for building trust in the context of corporate reporting (La Torre et al., 2020). According to (Dewi et al., 2019), accountability is influenced by the internal control system. The results of research conducted by (Sujana, E., Kurniawan Saputra, K. A., & Manurung, 2020) show that the internal control system and good governance have a strong impact on the quality of financial reports. Research conducted by (Anthoni & Suherman, 2023), shows that Accountability and Transparency have a positive and significant effect on the sustainability of non-profit organizations.

The presentation of financial statements becomes a serious problem when stakeholders are aware of the benefits of the report but are reluctant to implement it. Even though stakeholders have a high interest in financial reports, their knowledge is limited (Andhariani & de Villiers, 2019). In line with research conducted by (Abdul Halim et al., 2023), understanding the concept of ISAK 35 for mosque administrators in Kabutapen Kota Juang, Biruen Regency is still weak and needs to be improved.

The results of a review of 28 articles conducted by (Melia, 2022), showed that non-profit organizations (mosques and churches, foundations, Islamic boarding schools, social institutions, and orphanages) have not implemented the Financial Accounting Standards applicable in Indonesia. They still use cash basis and single-entry recording methods due to several obstacles, such as limited human resources and knowledge of preparing financial statements. Indonesian non-profit organization accounting standards are not taken into account in church accounting, because they contain elements of secularism that are not in line with the principles of ecclesiastical sanctity (Kambey, 2021).

For non-profit organizations, there is support for developing financial reporting standards, accountability to stakeholders, and accountability to external funders and regulators, (Crawford, L., Morgan, G. G., & Cordery, 2018). Research conducted on the Minahasa Evangelical Christian Church conducted by (Aprillia et al., 2022), shows that accountability increases the trust of the congregation, so they do not hesitate to make donations, and transparency reduces misunderstandings or suspicions within the church, including conflicts and divisions.

Financial reporting standards for non-profit organizations are not explicitly regulated in the Financial Accounting Standards (FAS), but the Accounting Standards Board (DSAK) issued Interpretation of Financial Accounting Standards (ISAK) 35. ISAK 35 contains guidelines for the Presentation of Financial Statements of Non-profit oriented entities. This is an excess of the adoption of International Accounting Standards (IAS) 1 Presentation of Financial Statements, (IAI, 2020).

Nonprofit organizations are one of the key agents in implementing socio-economic policies, financial reporting is relevant to their stakeholders, (Lopez-Arceiz et al., 2021). Research conducted by (Putri & Ayem, 2021), applies compliance theory to prove that the timeliness of submitting financial reports partially has a positive and significant effect on the accountability of financial statements.

Agency theory (Shapiro, 2005) narrates that one party acts on behalf of another. In this study, the management of the organization is handed over to the board as an agent of the stakeholders. The board carries out management duties based on the Articles of Association (AD). Article 15 paragraph 2 states that the board of trustees appoints the management for a period of 5 (years) and afterwards can be reappointed through a meeting of trustees. The management has full responsibility to manage the foundation for the benefit of the foundation as stated in article 17 paragraph 1, (YBI, 2006). This shows that the board is an agent of another party, namely the trustees.

The financial management of the foundation is part of the duties of the treasurer in accordance with article 19 paragraph 5 which states that Treasurer I has the duty to manage the foundation's finances. If there is only one Treasurer, then all the duties and authorities attached to Treasurer I apply to him as well.

Financial statements are intended to meet the needs of users who are not in a position to request specific financial statements to meet the information needs of these users (IAI, 2019). The form of financial statements that is suitable for non-profit organizations refers to ISAK 35, an embodiment of the interpretation of IAS 1 or Statement of Financial Accounting Standards (PSAK) 1 (IAI, 2020).

PSAK 1 paragraph 05 is the basis for preparing financial statements for non-profit entities with adjustments to the descriptions required for certain items in the financial statements. In accordance with implementation guideline 01 (PI01), the components of the financial statements contain at least: (1) statement of financial position, (2) statement of profit or loss and comprehensive income, and (3) statement of changes in equity. Examples of financial statement presentation follow PI03 - PI06.

In addition to the financial statements presented, internal control over cash and cash equivalents is necessary because cash is a very important part of an entity. Weak control over cash and cash equivalents is very dangerous and can be seen in the lower

value of cash. The negative assessment of an entity occurs because of its association with a weak control environment and poor financial reporting processes, (Gao, X., & Jia, 2016). This is in line with research on GMT churches in Indonesia by (Lomi Ga et al., 2021), which has not implemented financial reporting according to ISAK Standard No. 35 due to limited church human resources to manage finances. The same research results also indicated that the X Grand Mosque has not separated the recording and reporting of restricted and unrestricted funds (Asrori et al., 2020).

The application of the International Society for the Advancement of Kinanthropometry (ISAK) protocol, specifically ISAK 35, holds significant implications and contributions for non-profit organizations, particularly in the context of foundations. By employing the ISAK 35 methodology, non-profit organizations engaged in research or interventions related to health, fitness, and well-being can enhance their data collection and assessment processes. This standardized approach to anthropometric measurements ensures accuracy and reliability, allowing organizations to gather precise information about individuals' body composition and physical characteristics. Such data is invaluable for designing targeted programs, assessing the effectiveness of interventions, and making informed decisions to advance their philanthropic objectives. Additionally, adopting ISAK 35 bolsters the credibility of research conducted by non-profit organizations, as it adheres to internationally recognized measurement standards. Ultimately, the utilization of ISAK 35 in the realm of foundations enables these organizations to operate with a higher level of precision, effectiveness, and scientific rigor, thereby amplifying their positive impact on the communities they serve.

2. RESEARCH METHOD

This research uses a qualitative method (Creswell & Creswell, 2018), which is a method to describe, explore and understand the meaning of a group of individuals or people who come from social problems of humanity. The qualitative research process involves important efforts, such as asking questions, procedures, and collecting specific data from participants, analyzing data inductively from specific themes to general themes, then interpreting the meaning of the data.

The source of the data in this study was obtained from one of the foundations in Jakarta, which has both educational and non-educational institutions. The main data sources in qualitative research are sentences, actions, documents and others. Data sources were taken based on document collection, interview results, field notes and results from observations (Moleong, 2018).

The research method used by the author in this industrial research report is observation. Observation is "a method of data collection in which a person (usually trained) observes the subject of a phenomenon and records information about the characteristics of the phenomenon". Observation involves investigating observing the subject or research situation, (Kothari, 2004).

The descriptive analysis method was chosen by the author for preparing this research report. Descriptive analysis methods include making observations and asking questions to find facts about things. The main purpose of descriptive research is to describe the current situation.

3. RESULTS AND DISCUSSIONS

The residence of the foundation's management is spread outside the office which is domiciled in Jakarta and is voluntary, while the daily operations of the foundation's office are run by an office head. Most of the work is done online and only for important matters the management will come to the Jakarta office. The management of the foundation never makes financial reports due to the limited competence of the management and head of

the office. When no financial reports are issued, it indicates that there is no adequate financial control by either the management or the head of the office. Instead, presenting financial reports requires review services by a Public Accounting Firm (KAP) for a period of 5 years at a time.

These financial reports are used as the basis for management accountability at major online deliberations (5 years). Limited communication between management and stakeholders because deliberations are conducted online, causing stakeholders to not have the opportunity to study the report to the fullest. By presenting the 5-year financial statements directly at the same time, deliberation participants also do not have the opportunity to study in depth.

In the following, the financial statements reviewed by KAP from 20X1 to 20X5 are presented below. The financial statements consist of: (1) Statement of Financial Position (Balance Sheet), (2) Report on Profit/(Loss) Calculation, and (3) Report on Changes in Equity for 20X1 - 20X5.

3.2 Statement of Financial Position

Table 1 is a report on the financial position of the foundation for five consecutive years which is presented side by side for easy understanding and analysis.

Table 1. Statement of Financial Position for 5 years

	20X5	20X4	20X3	20X2	20X1
Asset					
Cash, cash equivalents	4.450.093.567	4.465.359.832	4.650.841.926	6.570.693.797	12.000.000.000
accounts receivable	-	-	-	386.456.737	500.000.000
Total current assets	4.450.093.567	4.465.359.832	4.650.841.926	6.957.150.534	12.500.000.000
Non-current assets					
Fixed assets	10.200.000.000	12.300.000.000	12.650.000.000	-	-
Other assets	-	-	-	1.880.998.830	-
Total assets	14.650.093.567	16.765.359.832	17.300.841.926	8.838.149.364	12.500.000.000
Total assets					
Short Term Liabilities					
Debt	8.598.360.550	10.125.205.067	10.125.205.067	80.019.226	500.000.000
Equity					
Retain earning	6.990.154.765	7.175.636.859	4.528.138.138	7.770.000.000	2.422.181.672
Profit and loss	1.511.578.252	(185.482.094)	2.647.498.721	(3.241.861.182)	5.347.818.328
Total Liabilities & Equity	17.100.093.567	17.115.359.832	17.300.841.926	4.608.158.044	8.270.000.000

Source: Foundation financial statements that have been reprocessed

a. Imbalance between total assets and total liabilities and equity

The statement of financial position (balance sheet) shows an imbalance between total assets and total liabilities and equity in 20X5, 20X4, 20X2 and 20X1. For example, in 2015 there was a difference of Rp. 4,230,000,000 between total assets and total liquidity and equity. Total assets show a value of Rp. 12,500,000,000 while the total liquidity and equity show a value of Rp. 8,270,000,000. If the reader is aware of these differences, it will have an adverse effect on both the entity and the KAP issuing the review financial report. The imbalance during these 4 years was not tracked by users of financial statements due to several reasons. One of them is the lack of understanding of users of financial statements regarding this information, such as a study conducted by Adhariani & de Villiers, 2019. The only balanced figure between total assets and total liabilities and equity is in 20X3.

b. Account naming and report format

The presentation of the "Statement of Financial Position" shows the existence of an "equity" account along with sub-accounts for the current year's retained earnings and profit (loss). This is inconsistent with the type of entity which is a non-profit entity. For non-profit entities, the account "net assets with sub-accounts (1) without restrictions from resource providers and (2) with restrictions from resource providers" should be used.

3.2 Profit and Loss Report

Table 2 presents the Foundation's Profit and Loss Report for 5 years showing income, operating expenses and other income from 20X1 to 20X5.

Table 2. Profit - Loss Calculation Report
For the years ended 20X5, 20X4, 20X3, 20X2 and 20X1

	20X5	20X4	20X3	20X2	20X1
Income					
Operating revenues	3.558.041.100	1.704.806.500	6.713.404.300	660.844.000	8.000.000.000
Gross profit	3.558.041.100	1.704.806.500	6.713.404.300	660.844.000	8.000.000.000
Operating Expenses					
Admin & General	(2.438.738.352)	(2.268.786.995)	(4.462.675.890)	(4.417.072.081)	(2.686.928.889)
Operational profit	1.119.302.748	(563.980.495)	2.250.728.410	(3.756.228.081)	5.313.071.111
Other income (expenses)					
Other income	392.275.504	378.498.401	396.770.311	514.366.219	34.747.217
Other expenses	-	-	-	-	-
	392.275.504	378.498.401	396.770.311	514.366.219	34.747.217
Profit before tax	1.511.578.252	(185.482.094)	2.647.498.721	(3.241.861.862)	5.347.818.328
Tax expense	-	-	-	-	-
Profit after tax	1.511.578.252	(185.482.094)	2.647.498.721	(3.241.861.862)	5.347.818.328

Source: Foundation financial statements that have been reprocessed

a. Account naming and report format

Presentation of "Report on calculation of profit (loss)" is also not in accordance with ISAK 35 which refers to PSAK 1, it should be presented with the title "Report of Comprehensive Income". The "Operating Income" account should be presented in 2 (two) separate accounts, namely: "(1) Unrestricted Income from resource providers and (2) Restricted Income from resource providers". Furthermore, the account "Unrestricted Income from resource providers" is described in several accounts: (a) Donations, (b) Services, (c) Investment Income. Tax expense does not need to be presented considering that non-profit entities are not subject to tax.

3.3 Statement of Changes in Equity

Furthermore, in table 3, the Foundation's Statement of Changes in Equity is shown for 5 consecutive years.

Tabel 3. Statement of Changes in Equity
For the year ended December 31

	Retain earning
Beginning balance, January 01, 20X1	2.422.181.672
Current year profit	5.347.818.328
Ending balance, December 31, 20X1	7.770.000.000
Beginning balance, January 01, 20X2	7.770.000.000
Current year profit	(3.241.861.862)
Ending balance, December 31, 19X2	4.528.138.138
Beginning balance, January 01, 20X3	4.528.138.138

Current year profit	2.647.498.721
Ending balance, December 31, 20X3	7.175.636.859
Beginning balance, January 01, 20X4	7.175.636.859
Current year profit (185.482.094)	
Ending balance, December 31, 19X4	6.990.154.765
Beginning balance, January 01, 20X5	6.990.154.765
Current year profit	1.511.578.252
Ending balance, December 31, 20X5	8.501.733.017

Source: Foundation financial statements that have been reprocessed

a. Account naming and report format

Presentation of “Statement of Changes in Equity” is not appropriate for non-profit entities should be presented as “Report on Changes in Net Assets”. The Report on Changes in Net Assets presents three main sections, namely: (1) Net assets without restrictions from resource providers, (2) Net assets with restrictions from resource providers, and (3) Other Comprehensive Income. Sections (1) and sections (2) are further broken down into: (a) Beginning balance, (b) Surplus/(deficit) for the current year, (c) Net assets exempt from restrictions, and (c) Ending balance.

4. CONCLUSION

Based on the discussion above, it can be concluded that the foundation's financial statements do not follow applicable standards and that there are weak internal controls over financial transactions. The application of an incomplete and non-sequential accounting cycle according to applicable standards was found at TPQ Al-barakah, (Sari, D. I., Ferdawati, 2022). Research on non-profit entities in Bandar Lampung has not implemented accounting standards, except for one organization that prepares as a requirement to submit proposals for international funding (Chaled & Sarumpaet, 2019).

According to the results of research conducted by (Muskanan et al., 2019), the application of accounting standards helps the church, as one of the non-profit organizations, implement its sacred mission and criticize the views of opponents who view accounting as profane, irrelevant, and impolite. Human resource competencies, the implementation of financial accounting systems of non-profit organizations, the implementation of internal control systems, and the utilization of accounting information technology affect the quality of financial statements of non-profit organizations (Hardiyanto et al., 2023).

Some suggestions that can be applied to the foundation are: (a) All transactions, both cash receipts and cash disbursements, are done through the bank (cashless). This is valid proof of transactions and will not be lost on the grounds of forgetting to make proof of transactions or other reasons. (b) There is a separation between those who input payments and those who authorize payments (token holders or valid signatures). (c) Create a chart of accounts as a reference for classifying transactions. (d) Make periodic financial reports (3 monthly) to facilitate control over existing finances. € Place competent staff or train existing staff, to be assigned to prepare periodic financial reports.

The author realizes that this research has limitations both in terms of time and other things, therefore there are still many variables that can be used as research objects. Research related to taxes, including: employee income tax, tax on own building, tax on rent and so on.

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