

Implementation of ISAK No. 35 on the presentation of financial statements of non-profit-oriented entities (Study at GMIM Bukit Hermon Malalayang)

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ABSTRACT

ISAK No. 35 can be used as a reference in preparing non-profit-oriented financial reporting. One non-profit oriented entity is a church, in this case, the Evangelical Christian Church in Minahasa (or often called GMIM). This study was carried out at GMIM Bukit Hermon Malalayang which is located in Malalayang District, Manado City. This study aims to examine the preparation of church financial reports based on ISAK No. 35 at GMIM Bukit Hermon Malalayang. The study method used is a qualitative approach based on case studies. The results show that the presentation of GMIM Bukit Hermon Malalayang's financial reports has not implemented ISAK No. 35 concerning the presentation of financial statements of non-profit-oriented entities. However, financial reporting is simply based on the GMIM Synod Treasury Supervision and Management Service Guidelines. During the 2023 period, financial reporting has been adjusted to ISAK No. 35 which consists of a comprehensive income report, change in net assets report, financial position report, cash flow report and notes to financial reports.

Keywords: ISAK No. 35; non-profit entities; churches; financial statements

JEL Classification: H83 & M41

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1. Introduction

Accountability of financial reports to the public must be carried out by both profit-oriented and non-profit organizations. Financial reports are the result of the accounting process which can be used as a communication tool to parties who have an interest in financial data and entity activities (Setiadi, 2021; Anjani & Bharata, 2022). Statement of Financial Accounting Standards (or PSAK) No. 45 consists of paragraphs 01 to 36 and has

been replaced with Interpretation of Financial Accounting Standards (or ISAK) No. 35 concerning Presentation of Financial Statements of Non-Profit Oriented Entities. This statement is a special standard for non-profit organizations that must and have the right to prepare financial reports and report to users of financial reports. The basic difference between PSAK No. 45 with ISAK No. 35 are the types and formats of non-profit entity financial reports. PSAK

No. 45 states that the financial reports of non-profit entities consist of 4 types of financial reports, namely financial position reports, activity reports, cash flow reports and notes to financial reports, while ISAK No. 35 suggests 5 types of reports, namely financial position reports, comprehensive income reports, changes in net assets, cash flow reports and notes to financial reports.

Public sector accounting is accounting used by public institutions as a means of accountability to society. Institutionally, the public domain includes, among others, government non-profit organizations and non-government non-profit organizations including volunteer organizations, hospitals, colleges and universities, as well as other non-government organizations such as foundations, non-governmental organizations, religious organizations, political organizations, and so on (Andarsari, 2016). Nonprofit organizations obtain resources through generous contributions from individuals who provide financial support without anticipating any rewards or rewards for their monetary contributions (Karim & Widajantie, 2023). One of the non-profit organizations is a church that operates in the religious sector because it obtains resources from donations from members and donors, including the Evangelical Christian Church in Minahasa (or GMIM). GMIM is part of the Protestant Christian church denomination of the members of the Indonesian Church Association (or PGI). GMIM Bukit Hermon Malalayang is a church located in North Sulawesi Province, especially in the Manado-Malalayang Region with a congregation of 786 people. This condition causes the funds needed and used by this church to be quite large, so it is necessary to keep good financial records.

GMIM Bukit Hermon Malalayang has a Congregational Council Working Body (or BPMJ) and Special Servants who prepare plans and realize church activities. These activities also include accounting

records that provide church financial reports based on the GMIM Treasury Supervision and Governance Service Guidebook. Consistent with Janis and Budiarmo (2017), (Kedoh and Sulindawati (2022), and Lengkey et al. (2023), GMIM Bukit Hermon Malalayang's funding sources also come from Congregation Worship Offerings every Sunday, Congregation Tithe Offerings, Fixed Family Monthly Offerings (or PBTk), Centralization of Columns, Congregation "BIPRA" (Mr, Mothers, Youth, Adolescents, Children) Commission Centralization, Congregation Thanksgiving Covers, Donors/Contributors and Income from the Government. On the other hand, church expenses are generally for ministry needs. In general, the accounting process in several non-profit organizations is still simple and traditional (Wirakrama et al., 2023; Wibisono et al., 2022; Shoimah et al., 2021; Ula et al., 2021). Similar conditions also occurred at GMIM Bukit Hermon Malalayang. Non-profit organizations face professional challenges by implementing accountability even though their resources are limited or static based on mutual trust (Diviana et al., 2020). Another problem faced by this organization is limited human resource accounting competence because people in the organizational structure work voluntarily (Dewi & Herawati, 2023; Siregar et al., 2023; Lubis et al., 2023). The organizational structure has the highest organ that regulates policies including finance so that third parties do not question the accountability of financial reports (Kwalepa et al., 2022). The Church is obliged and entitled to prepare accountable financial reports where the financial report information produced is not only intended for Church administrators (BPMJ or Special Servants) but also for the congregation and other donors.

2. Literature review

Stewardship theory. According to Donaldson and Davis (1991), stewardship theory is a theory that describes a situation where managers are not motivated by individual goals but are more focused on their main results for the benefit of the organization. This theory indicates that there is a close relationship between satisfaction and the success of an organization. In principle, accounting is a tool/means of reporting manager activities regarding the management of human and financial resources. The contractual relationship between the principal and the stewards is based on trust, collectively following the goals of the organization. The role of the steward in this church institution is that of the church administrator, namely BPMJ, with the function of managing resources and the congregation as principals who own the resources. Resource owners entrust resource management to resource managers. The dynamics of accountability for church funds vary and are influenced by religious belief systems as well as social and organizational dynamics of the church (Saerang, 2003). This has implications for the role of accounting information and accounting practices in managing church funds. Therefore, it is hoped that the church must implement a financial accountability system in the form of presenting accountable and transparent financial reports in accordance with the characteristics of financial reports, namely relevant, reliable, understandable and comparable.

Church financial resources. Church finances are money and property that comes from offerings, offering envelopes, donations from the congregation and from outside the congregation. Church property is obtained through purchases, income, offering envelopes, alms, donations and other lawful efforts following Christian principles. Offerings are money given during the service, offering envelopes are

also given during the service and read to the members of the congregation's message and non-binding donations or assistance are voluntary donations or assistance received either from the government, congregation or other parties that do not conflict with applicable laws and regulations.

ISAK No. 35. Since January 1, 2020, the preparation of financial reports for non-profit entities no longer uses PSAK No. 45 issued by the Financial Accounting Standards Board of the Indonesian Accountants Association (or DSAK IAI). On April 11 2019, the DSAK IAI implemented the revocation of PSAK No. 45; Non-Profit Entity Financial Reporting as stated in PPSAK No. 13 and issued ISAK No. 35 ; Presentation of Non-Profit Oriented Financial Reports which is an Interpretation of PSAK No. 1. This statement is effective on the effective date for entities applying this Interpretation for financial year periods beginning on or after January 1 2020. The following is a simple example of how to present a non-profit financial report which includes information on the statement of financial position, comprehensive income report, report on changes in net assets , cash flow statements, and notes to financial reports. In this illustrative example, the term "comprehensive income" is used to denote the amount of surplus (deficit) and other comprehensive income. An entity may use a different name as long as the use of a different name reflects an activity that is more appropriate to the content of its financial statements. For simplicity, this illustrative example only presents one presentation in the form of a "comprehensive income" report to show the amount of surplus (deficit) and other comprehensive income. The examples in this interpretation are not intended to describe all aspects of SAK or include appropriate forms for all non-profit entities. These examples may differ from

conditions found in certain non-profit oriented entities.

1. *Financial position report.* There are 2 (two) financial position report formats presented. Each format has its advantages, viz.
 - a. Format A presents information on other comprehensive income items separately as part of net assets without restrictions from the resource provider. However, if other comprehensive income comes from net assets with restrictions, then the entity presents information on such other comprehensive income according to the class of net assets.
 - b. Format B does not present information on other comprehensive income items separately.
2. *Comprehensive income report.* There are 2 (two) comprehensive income report formats presented. Each format has its advantages.
 - a. Format A presents information in single-column form. Format A makes it easier to prepare comparative reports; or
 - b. Format B presents information according to the net asset classification.
3. *Report on changes in net assets.* Reports of changes in net assets in non-profit oriented entities are classified into 2 (two), namely: (a) net assets without restrictions from resource providers; and (b) net assets with restrictions on resources.
4. *Cash flow report.* The cash flow report is used to disclose information regarding operating, investment and financing activities in one period. Based on ISAK No. 35, the cash flow report consists of two methods, namely direct and indirect.
5. *Notes to financial reports.* PSAK No. 1 2022 states that the notes to the financial statements contain additional

information to what is presented in the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows. Notes to financial statements provide a narrative description or separation of items presented in the financial report and information regarding items that do not meet the recognition criteria in the financial report. Notes to financial statements present several interrelated financial records within an entity. Note A describes the required disclosure policy that causes note B to be presented. Notes C, D and E provide information that non-profit-oriented entities are encouraged to disclose.

3. Research method

This study uses a qualitative approach. According Sugiyono (2021), qualitative research is based on philosophy which examines scientific conditions with researchers as the main instrument. A case study approach is used to understand problems, especially in the financial reporting section of non-profit organizations, through information collected to find solutions. Primary data was obtained through interviews with the help of a recording device. Secondary data in this research includes financial reports, church history, vision and mission of the research object, and organizational structure which is directly related to the research topic with other sources. The informants involved in the interview were:

- (1) A person of BPMJ Chair as head of the church management, a Congregation Treasurer as a church administrator who manages and records financial reports, and a Church Employee who assists the Treasurer in organizing, inputting and reporting financial reports.
- (2) 3 persons Special Servants and 2 persons Congregation Members who

know the condition of the church so they can provide additional information.

4. Result and discussion

Based on the results of the interview, GMIM Bukit Hermon Malalayang still applies a simple accounting process. Accounting records are carried out only using a general cash book supported by documents and managed by the treasurer. Accounting processes such as journals, ledgers and producing financial reports in the form of financial positions are still not implemented in a standard manner. This condition shows that GMIM Bukit Hermon Malalayang still has not implemented ISAK No. 35. However, GMIM Bukit Hermon Malalayang carries out financial records only based on the guidelines of the GMIM Synod. The aim is to make financial reports easy to understand because not all treasurers and church employees in the congregation have an accounting background.

At the beginning of the period, BPMJ begins financial management by preparing service programs and the Expenditure and Revenue Budget (or ABP). The preparation of the program and ABP is based on the program realization report for the previous period. The program and ABP that have been prepared are then determined at the congregational council session. The next stage is the realization and preparation of the monthly accountability report or Budget Realization Report (or LRA) which is then reported to the congregation assembly session. The form of recording and supporting documents used in preparing financial reports at GMIM Bukit Hermon Malalayang are described below.

a. *Proof of transaction.* All church activities, including cash receipts and disbursements, are all made into transaction evidence for accountability purposes.

- b. *General cash book.* The general cash book is used to record every cash receipt and disbursement transaction with support in the form of a notebook from the Special Servant and proof of the transaction.
- c. *Financial bulletin/weekly report.* The financial bulletin contains the same weekly list of cash receipts and disbursements in the general cash book. Financial bulletins are delivered to the congregation as an account for Sunday worship.
- d. *LRA.* This report is presented at the end of each month based on financial bulletin information/weekly reports. This LRA is used to see how much realization has occurred at ABP and is reported and accounted for monthly at the congregation assembly session by the BPMJ Treasurer.
- e. *Reporting.* At this stage, the church has not yet prepared formal financial reports so the LRA is the sole liability. At the end of the year, the Congregation Treasurer evaluates the realization of Budget Items (or MA) following the APB program and reports it to the GMIM Synod Treasury Division. The LRA is checked by the Congregational Treasury Oversight Commission (or KPPJ) every six months. Examination of the LRA is continued by the GMIM Synodal Treasury Supervisory Body (or BPPS) at the end of each period.

5. Conclusion

The presentation of financial reports at GMIM Bukit Hermon Malalayang does not yet follow ISAK No. 35. The presentation of financial reports at GMIM Bukit Hermon Malalayang simply refers to the guidelines from the GMIM Synod. Therefore, GMIM Bukit Hermon Malalayang needs to present financial reports that are relevant and easy to understand following ISAK No. 35. This aims to enable the church to know the

entity's financial surplus/deficit in addition to the cash balance at the end of the period. Another characteristic of the church is that financial information does not indicate any debt in the form of short or long term.

In conclusion, this study suggests that the GMIM Synod needs to implement ISAK No. 35. In the preparation stage, the GMIM Synod needs to carry out training in presenting financial reports following ISAK No. 35 to each church treasurer. Apart from that, churches need to consider competency in accounting knowledge for the position of treasurer to make it easier to present financial information. Another improvement is that GMIM Bukit Hermon Malalayang needs to complete the church asset book by adding the year and acquisition price as well as the final book value of each asset. In addition, church assets need to have a code to make their identification and whereabouts easier. The church also requires intensified monitoring of the realization of the approved budget.

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