
**COMPARISON OF THE EFFICIENCY OF USING THE CASH FLOW
ACCOUNTING METHOD AND THE ACCRUAL METHOD FOR FINANCIAL
RECORDING OF MSMEs IN MATARAM CITY**



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Abstract

This study compares the efficiency of the cash flow accounting method and the accrual method in recording the finances of Micro, Small, and Medium Enterprises (MSMEs) in Mataram City. The results show that the majority of MSMEs still use the cash flow method because it is simpler, easier to implement, and does not require complex accounting expertise. Although operationally efficient, the cash flow method has limitations in presenting comprehensive financial information. In contrast, the accrual method is able to present more complete and accurate financial information because it records transactions based on rights and obligations, not just cash flow. The accrual method is considered more appropriate for MSMEs that want to develop professionally and collaborate with formal financial institutions. Therefore, the choice of financial recording method should be adjusted to the business scale, information needs, and long-term goals of each MSME.

Keywords: Efficiency, Cash Flow Accounting Method, Accrual Method, Financial Recording, MSMEs in Mataram City

INTRODUCTION

Indonesia, as a developing country, has an economic structure supported by the Micro, Small, and Medium Enterprises (MSMEs) sector. MSMEs play a crucial role in the economy through their contribution to GDP and employment, accounting for over 60% of GDP and 90% of the national workforce (Ministry of Cooperatives and SMEs, 2023). Despite their significant role, MSMEs still face challenges, particularly limited access to business capital, which hinders business growth and sustainability. Many MSMEs struggle to obtain loans from formal financial institutions due to a lack of collateral or difficult administrative requirements (World Bank, 2022). Furthermore, low financial literacy also hinders MSMEs from managing their finances effectively. A sound financial record-keeping system is crucial for the sustainability of MSMEs (Lubis et al, 2023; Fatkhurrozi & Rahmawati, 2023).

Two commonly used accounting methods are the cash flow method and the accrual method. The cash flow method records financial transactions based on cash receipts and disbursements, while the accrual method records transactions based on the time the income and expenses occur, even if cash has not yet been received or paid (Mulyadi, 2021). Selecting the appropriate accounting method can help MSMEs obtain a more accurate financial picture and support long-term business sustainability. Micro, small, and medium enterprises (MSMEs) are creative industries that rely on the ideas and concepts of their owners. This plays a vital role in the Indonesian economy. The performance of MSMEs in Indonesia has experienced significant growth and development in recent years.

The increasing development of MSMEs in Indonesia also faces several obstacles in administrative management. Of course, good administrative management requires MSMEs to have good skills (Bella et al, 2024). Financial recording and management are key to MSME success. The preparation of SAK EMKM financial reports can be useful for MSMEs to assess, evaluate, and develop their businesses within an accounting period (Mutiah, 2019). Furthermore, as a business grows, MSMEs can obtain additional capital from banks or other financial institutions by attaching the entity's financial statements to determine their creditworthiness. (Danila Hamongsina et al., 2022)

MSMEs often face various challenges, including inaccurate financial decision-making, necessitating a mastery of accounting information. Accounting information is crucial for supporting business sustainability, understanding profitability, and facing global competition because it is relevant and timely (Senolangi et al., 2024). There are significant differences between the cash-based and accrual-based accounting methods. The cash method, which is suitable for small businesses, records revenue and expenses when cash is received or paid, but does not reflect the overall financial condition (Amaliah et al., 2024). Conversely, the accrual method records revenue and expenses based on rights and obligations, making it more complex but more accurate (Sia & Widhi, 2022). In financial reports, the accrual method also produces more comprehensive components. Furthermore, MSME performance is now influenced by the use of digital business, which has become a crucial strategy for communicating with consumers and stakeholders.

In Mataram City, MSMEs are growing rapidly as a key sector in the regional economy. MSMEs in Mataram City operate in various sectors, such as trade, culinary arts, handicrafts, and services. The 2021-2024 period showed significant MSME development dynamics, particularly following the COVID-19 pandemic, which impacted people's purchasing power and consumption patterns (Suharli, 2022). This pandemic forced many

MSMEs to adapt to new business models, such as business digitization, online marketing, and product innovation to survive amidst increasingly fierce competition. However, despite their significant potential,

MSMEs in Mataram City still face various operational challenges. Some of the main obstacles include limited access to capital, low levels of financial literacy, lack of technology utilization in transaction recording, and inefficiency in financial record-keeping, which remains a major obstacle. Many MSMEs lack a well-organized financial recording system, making it difficult for them to manage cash flow, calculate profits, and make sound business decisions (Ministry of Cooperatives and MSMEs, 2023). The implementation of cash-based and accrual-based financial recording methods by MSMEs in Mataram City still faces various challenges. According to Lestari (2022), many MSMEs in Mataram have not optimally implemented the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM), resulting in simplistic and substandard financial records. This is due to technical limitations in preparing accrual-based financial reports and a lack of awareness of the importance of comprehensive financial reports. (Kartini et al. 2023) added that MSMEs in Mataram City generally have not fulfilled the accounting cycle stages according to the MSME SAK, which results in their financial reports not accurately reflecting their financial condition.

REVIEW OF LITERATURE

MSMEs

The definition of MSMEs is based on the article of the Republic of Indonesia Law. 20 Chapter 1 article small and medium enterprises are productive economic companies that are owned, controlled, or become part of, either directly or indirectly, by individuals or not branches of companies, directly from companies that meet the criteria of medium or small businesses.(Rizqya, 2020).

Cash Flow Accounting

Cash flow is a key indicator of financial health and measures a small business's ability to implement proper cash flow management, particularly in terms of budgeting. Cash flow is defined by the owner as a record of the costs incurred in production and the revenue generated from the resulting product.(Management & Business, 2019).

Cash Flow Method

According to the Indonesian Accounting Association (2000), financial reports serve various functions to provide an overview of a company's position. A profit and loss statement is a summary that records revenue and expenses over a specific period, such as a month or a year. A statement of changes in equity summarizes changes in owners' equity that occur over a specific period, either monthly or annually.

Accrual Method

The accrual method recognizes revenue when it is earned and realizes it when the company delivers its products or services. Revenue can be realized when the company receives assets that can be converted into cash or cash equivalents. Additionally, revenue can be recognized when goods or services are in the production process, have been completed, or, depending on the specific company's circumstances.(Chandra, 2024).

RESEARCH METHOD

This research is a qualitative descriptive study that aims to analyze and compare the efficiency of using the Cash Flow accounting method and the Accrual Method in the financial recording of MSMEs in Mataram City. This research was conducted in Mataram City. This location was selected based on the relevance and existence of MSMEs that contribute significantly to the local economy. This research was conducted in April 2025 in Mataram City. The main respondents in this study were business owners or financial managers of MSMEs in Mataram City who understood the financial recording process, totaling 15 people.

RESULTS AND DISCUSSION

Overview of Research Object

Micro, small, and medium enterprises (MSMEs) in Mataram City constitute a crucial sector in the regional economic structure. As the capital of West Nusa Tenggara province, Mataram City holds a strategic position in trade, services, and tourism. MSMEs in this city are growing rapidly and serve as a vital economic driver for the community, contributing significantly to job creation and improving welfare. MSMEs in Mataram City operate in various sectors, including trade, culinary arts, handicrafts, creative industries, and services. The 2021-2024 period reflects a significant growth trend, particularly following the COVID-19 pandemic. Many businesses are adapting by developing digital-based business models, including online marketing and e-commerce sales.

However, amidst positive growth, MSMEs in Mataram City also face a number of challenges, particularly in financial management and business administration. Limited financial literacy, low awareness of the importance of accounting information, and minimal use of technology are obstacles to business sustainability and development. Many MSMEs have not yet implemented accounting standards, such as the Indonesian Accounting Standards for MSMEs (SAK EMKM), and still use simple cash recording methods that do not fully reflect their financial condition.

The implementation of both cash-based and accrual-based accounting methods still faces technical and educational challenges. This results in inaccurate financial reports, which ultimately hinders MSMEs from accessing financing, conducting business evaluations, and making informed business decisions. Therefore, strengthening the understanding and application of financial recording systems is a crucial aspect that needs to be addressed to improve the managerial capacity and competitiveness of MSMEs in Mataram City.

This study aims to compare the efficiency of using the cash flow accounting method and the accrual method in recording the finances of MSMEs in Mataram City. Based on the results of interviews and documentation conducted with several MSMEs, it was obtained that the majority of MSMEs still use the cash flow method because it is considered simpler, cheaper, and easier to understand. Meanwhile, the accrual method is still rarely applied because it is considered complicated, requires a higher level of accounting understanding, and not all business actors have access to adequate accounting training.

However, in terms of the quality and completeness of financial information, the accrual method provides a more accurate and comprehensive picture, particularly regarding the recognition of unpaid or unearned revenue and expenses. This directly impacts decision-making and business feasibility when applying for financing from financial institutions.

For further clarity, the following is a comparison table between the two recording methods:

Table 1.
Comparison of the Efficiency of Using Cash Flow and Accrual Methods

Aspects Compared	Cash Flow Method	Accrual Method
Principles of recording	Record when cash is received/paid	Record when income is earned or expenses occur, even though cash has not been received/paid.
Ease of use	Simple and easy to implement, suitable for MSMEs	More complex, it requires an understanding of accounting
Implementation costs	Low can be done manually	Higher, because it requires software or professional assistance.
Financial information provisions	Less accurate, does not reflect receivables or payables	Accurate, reflects all transactions, including receivables/payables
Support for credit access	Less supportive of credit applications due to detailed financial reports	More trusted by financial institutions
Relevance for decision making	Limited to short-term decisions	Suitable for long-term analysis and strategic decisions.
Usage in MSMEs in Mataram City	Used by the majority of MSMEs because it is more practical	Not widely used due to limited literacy and training

Based on the table, it can be concluded that the cash flow method is more efficient from an operational and affordability perspective, but the accrual method is superior in terms of completeness of information and financial accounting. For MSMEs in Mataram City, adopting the accrual method is highly recommended, especially for businesses seeking to expand their business scale and requiring broader access to financing.

Based on these criteria, the researcher determined 15 (fifteen) samples as follows:

Table 2.
List of Research Sample Names

No.	Owner Name	Type of business	Year of Establishment	Address
1	Siti Marlina	Pastry	2020	Sekarbela
2	Auliya	Bouquet	2022	Kekalik
3	Huzliatun	Brownies & Donuts	2021	Cultural Park
4	Titin	Dim Sum	2022	Ampenan
5	Ayu	Kelepon	2023	Udayana
6	Soraya	Ice Teler	2020	Cultural Park
7	Fitri	Jasuke	2023	Cultural Park
8	Rudy	Kebab & Burger	2022	Kekalik

9	Risma	Basereng	2021	Great Dasan
10	Doni	Korean street food	2020	Cultural Park
11	Indri	Beauty Cosmetics	2019	once again
12	Yuliastri	Nail Art	2021	Gomong
13	Mahfud	Clothes shop	2022	once again
14	Hamzan Wadi	Skin Crackers	2020	sekarbela
15	Nur	Snacks	2021	sekarbela

Research Result

Based on interviews and observations with 15 MSMEs in Mataram City, it was found that most business owners prefer using cash flow-based accounting methods. This is due to the ease of use and limited understanding of accounting principles. MSMEs record income and expenses directly when cash transactions occur, either manually using notebooks or simply using a mobile phone note-taking app. Only a small proportion of respondents are familiar with the accrual-based accounting method, and none have fully implemented it in their business financial management.

The cash flow method was chosen because it was considered more operationally efficient, required no additional training costs or specialized software, and was considered sufficient for short-term decision-making, particularly for daily needs such as raw material purchases or simple profit and loss calculations. However, in terms of the accuracy of financial information and its ability to reflect the overall business condition, this method still has several limitations. One of these is that it does not record transactions that do not directly involve cash, such as customer receivables or accounts payable.

In contrast, the accrual method provides more complete and accurate information because it records all transactions as they arise, not just when cash is transferred. This method is considered more ideal for growing businesses that require financial reports that can be used for long-term evaluation or business loan applications. However, the use of this method among MSMEs in Mataram City remains low due to limited accounting literacy and the lack of comprehensive technical guidance from relevant parties.

By considering the advantages and disadvantages of each method, it can be concluded that the cash flow method is more suitable for MSMEs with small business scales and limited resources, while the accrual method is more recommended for MSMEs that have a long-term vision and are oriented towards more professional business growth.

Field Findings Analysis

Based on field data, most respondents:

- a. Using a simple cash flow recording method, either in the form of a daily log or a notebook.
- b. Only a small number of people know the accrual recording method, and none of them have applied it consistently.
- c. Capital comes from personal or savings, and only a few have access to banking due to recording constraints.
- d. Involvement in the bazaar has a direct impact on increasing short-term turnover.
- e. Business actors admit that financial recording is not optimal but understand the importance of recording for business development.

Discussion

Based on interviews with 15 MSMEs in Mataram City, the majority of respondents still use the cash flow-based financial recording method. This method was chosen because it is considered simpler, does not require specialized accounting skills, and can be done manually. Fourteen of the 15 respondents admitted to only recording financial transactions as cash inflows or outflows occur, either through notebooks, sales receipts, or simple note-taking applications. They are not yet accustomed to systematically recording receivables and payables, or preparing profit and loss statements and balance sheets.

This indicates that accounting literacy among MSMEs remains low, particularly in understanding and implementing the accrual method, which requires recording revenue and expenses when the transaction occurs, not when cash is transferred. Some business owners fail to distinguish between personal capital and business cash, potentially leading to errors in financial decision-making. This leads to inaccurate financial reports and difficulties in assessing the profitability and overall financial health of the business.

However, one respondent (Mahfud, Clothing Store) demonstrated initiative in starting to implement the accrual method in a simple way. He recorded customer receivables and supplier payables and attempted to prepare a monthly profit and loss report. While not yet fully compliant with accounting standards, this step demonstrates an awareness and willingness to improve the quality of business financial management. This demonstrates that implementing the accrual method is possible, although it still requires more intensive guidance and training.

The dominant use of the cash flow method indicates that operational efficiency is a primary consideration for MSMEs. However, this method has limitations in presenting comprehensive financial information. Therefore, a gradual transition to the accrual method is essential, especially for MSMEs seeking to expand their businesses and gain access to financing from formal financial institutions. Local governments and MSME support institutions are expected to provide basic accounting education and training to accelerate this adaptation process.

By comparing the advantages and disadvantages of each method, it is clear that the choice of financial recording method is heavily influenced by factors such as business scale, the entrepreneur's education level, and access to training resources. Therefore, capacity-building strategies for MSMEs must be tailored to their needs and characteristics to improve overall financial record-keeping efficiency.

CONCLUSION

Based on the results of research conducted on comparing the efficiency of using the cash flow accounting method with the accrual method for financial recording of MSMEs in Mataram City, it can be concluded that the majority of MSMEs still use the cash flow method. This is because the cash flow method is easier to implement, does not require complex accounting expertise, and is more appropriate for small businesses that are still managed simply. Recording occurs when cash receipts and disbursements occur, without taking into account accounts payable or receivable.

Although the cash flow method is considered operationally efficient and practical, it has limitations in presenting comprehensive financial information. Conversely, the accrual method provides a more complete and accurate financial picture because it records

transactions based on the time of occurrence of rights and obligations, not just when cash is transferred. The accrual method is more suitable for MSMEs seeking professional development and accessing financing from formal financial institutions. Therefore, selecting the appropriate financial recording method must be tailored to the business scale, information needs, and long-term goals of the MSME.

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