

Analysis of ISAK 35 Implementation in Ruang Belajar Aqil Non-Profit Organizations Engaged in The Third Sector

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Abstract. In managing the finances of non-profit organizations, it is important to have clear guidelines in financial reporting. This study examines the financial statements of a non-profit organization using ISAK No. 35. The purpose of this study is to determine how the implementation of financial statements based on ISAK No. 35 at the non-profit organization Ruang Belajar Aqil. According to ISAK 35, the financial statements of non-profit organizations include five components including statements of financial position, comprehensive income, changes in net assets, cash flows, and notes to the financial statements. The results showed that Ruang Belajar Aqil has only implemented ISAK No.35 since 2022. The application of ISAK 35 in this non-profit organization is still not fully in accordance with the provisions of the standard. Some of the main financial statements have been prepared properly, but there are still deficiencies in the presentation of the statements of changes in net assets, cash flows, and details of comprehensive income. The organization should improve the preparation of financial statements by complying with the provisions of ISAK 35 thoroughly to increase transparency and accountability.

Keywords: Non-profit Organization, ISAK 35, Financial Report

I. Introduction

There are various forms of organizations in Indonesia, one of which is a non-profit organization. A non-profit organization is an entity established with the main purpose of providing services to the community without pursuing financial gain. Unlike for-profit organizations whose main focus is to generate profits, non-profit organizations are oriented towards social missions, education, health, religion, and other humanitarian goals. Because of their non-profit nature, financial reporting of non-profit organizations is designed to reflect the use of resources and emphasizes transparency in the use of funds provided by donors and how those resources are used to achieve organizational goals.

Financial reporting in non-profit organizations has different characteristics compared to the financial reporting of for-profit organizations. To provide accountability to the public, non-profit organizations must comply with financial reporting standards in accordance with applicable standards, as stipulated in the Interpretation of Financial Accounting Standards (ISAK 35). ISAK 35 provides specific guidance on financial reporting presentation standards for non-profit organizations by emphasizing the importance of transparency and accountability in recording revenue and reporting public support. In its application, ISAK 35 often faces various challenges and issues that require special attention. Non-profit organizations face various challenges in conforming to this standard, mainly due to the significant differences in their characteristics and operations compared to business entities. One of the main issues is the difficulty in presenting financial statements in accordance with the provisions of ISAK 35. Non-profit organizations often have varied and volatile sources of funding, such as donations, grants, and revenue from fundraising activities, which are different from the revenue generated by business entities. This poses challenges in the recognition and measurement of revenue and the accurate allocation of expenses. In addition, many nonprofit organizations have limited human resource capacity in terms of accounting and financial knowledge.

Previous research has identified various issues related to the application of ISAK 35 in non-profit organizations. For example, a study by Siahaan, et al (2023) found that the financial recording of Al-Ihsan Mosque still uses a simple method, where recording will only be done if income and expenses are cash. Another study by Utari and Vemi (2024) showed that HKBP Aloban Church has not maximally developed ISAK 35 in its financial statements; reporting only consists of income reports and expense reports. The purpose of this research is to review and analyze the application of ISAK 35 in non-profit organizations, with a case study on the Ruang Belajar Aqil. This research aims to identify the extent to which Ruang Belajar Aqil has applied ISAK 35 in its financial statements, as well as uncover the challenges and obstacles faced in the process. Thus, it is hoped that the results of this study can provide useful insights for improving accounting practices in other non-profit organizations and support financial transparency and accountability in this sector.

Non-profit organizations are often associated with the third sector, which refers to the part of society that functions outside the government sector (first sector) and the business sector (second sector). The third

sector includes various forms of organizations that focus on public service and social welfare, including foundations, non-governmental organizations (NGOs) and charitable organizations. The relationship between the application of ISAK 35 and the TAPA principles in non-profit organizations reflects efforts to improve transparency, accountability, professionalism, and trustworthiness. By complying with ISAK 35 guidelines, non-profit organizations can improve the quality of their financial reporting, thereby strengthening public and donor confidence in the integrity and effectiveness of their social mission.

II. Literature Review

Non-profit Organization

Non-profit organizations or non-profit organizations are one of the components in society that have an important role, without realizing it in everyday life there is now more and more involvement of nonprofit organizations. A non-profit organization is an entity that is established with the main purpose of providing services and supporting an issue related to society in attracting public attention without the aim of making a profit (Korompis, 2014). Some examples of non-profit organizations are public schools, mosques, public hospitals and clinics, political organizations, volunteer service organizations, and so on. In carrying out their activities, non-profit organizations get resources from public support. The public support can be in the form of cash or non-cash donations.

Financial Statements

According to Kembauw (2020), financial statements are reports that present information about the company's financial condition in a certain period, which can be used to assess the performance of the company concerned. The main purpose of financial statements is to provide an accurate and transparent picture of the company's financial position, operational performance, and cash flow to external and internal stakeholders such as investors, creditors, regulators, company management, and the general public. Financial statements usually consist of several main components, namely the balance sheet (statement of financial position), income statement, cash flow statement, statement of changes in owners' equity, and notes to the financial statements.

- **A balance sheet** shows the financial position of a company at a point in time by describing its assets, liabilities, and equity. The balance sheet is useful for assessing a company's financial stability as well as measuring its ability to meet its financial obligations.
- **The income statement** depicts a company's revenues and expenses during a given period, providing critical information regarding the profitability and operating performance of the company. Income statement analysis helps understand the efficiency of operational strategies and the company's success in achieving its financial goals.
- **The statement of cash flows** reveals the inflows and outflows from operating, investing, and financing activities. This statement is important for measuring a company's liquidity and its ability to finance day-to-day operations and long-term investments.
- **The statement of changes in owners' equity** explains the changes in the company's capital balance and retained earnings from one period to the next. It allows stakeholders to track how owners' equity has evolved over time.
- **Notes to the financial statements** provide additional information and more detailed explanations related to the data presented in the main financial statements. These notes promote transparency and enable a better understanding of the accounting decisions made by the company's management.

Interpretation of Financial Accounting Standards

Interpretation of Financial Accounting Standards (ISAK) is part of the Financial Accounting Standards (FAS) prepared by the Standards Board of the Indonesian Institute of Accountants (DSAK IAI) and the Sharia Standards Board of the Indonesian Institute of Accountants (DSAS IAI), together with the Statement of Financial Accounting Standards (PSAK). ISAK that regulates the presentation of financial statements for non-profit entities is ISAK No. 35. ISAK 35 is issued as a continuation of PSAK 01 paragraph 05 regarding the presentation of financial statements. To meet the accounting standards of ISAK 35, the financial statements must include five components, namely the statement of financial position, statement of comprehensive income, statement of changes in net assets, statement of cash flows, and notes to the financial statements.

- **The Balance Sheet or Statement of Financial Position** is a statement that provides information about assets, liabilities, and equity. ISAK 35 offers two presentation formats, namely format A and format B. Each format has its own advantages. Each format has its own advantages. Format A contains information on other comprehensive income items separately as part of net assets without restriction

from the provider of resources. However, if other comprehensive income items are derived from net assets with restrictions, the information is presented in accordance with the class of net assets. Meanwhile, Format B does not separate information on other comprehensive income items.

- **The Statement of Comprehensive Income** informs about income and expenses, and notes whether there is a surplus or deficit. ISAK 35 presents two formats for this report. Format A presents the information in a single column, making it easy to compare reports. While Format B organizes the information according to the classification of net assets.
- **The Statement of Changes in Net Assets** classifies and presents changes in net assets according to their classification.
- **The Statement of Cash Flows** aims to provide information about cash receipts and disbursements during a period. Cash flows are classified into three categories: operating activities, investing activities, and financing activities.
- **The Notes to the Financial Statements** include the required disclosure policies that result in the need to present some additional notes. The notes provide information that is recommended to be disclosed by non-profit oriented entities.

Third Sector

The third sector, also known as the non-profit sector or the for-profit sector, refers to the part of society that functions outside of the government sector (first sector) and the business sector (second sector) that sources and builds on the strengths of society directly (Ruang Belajar Aqil, 2023). This sector includes various forms of organizations that focus on public service and social welfare, including foundations, nongovernmental organizations (NGOs), charitable organizations, cooperatives, and various other non-profit entities. The main objective of organizations in the third sector is to meet the needs of society through social missions, education, health, religion, and other humanitarian purposes, without prioritizing financial gain.

Third sector organizations rely on resources from donations, grants, and income from fundraising activities, which makes transparency and accountability in fund management essential. This aims to ensure that funds received from donors and stakeholders are used effectively and efficiently to achieve the organization's objectives. Financial reporting standards such as Interpretation of Financial Accounting Standards (ISAK) 35 in Indonesia provide specific guidance on the presentation of financial statements for non-profit organizations, with an emphasis on transparency and accountability. The implementation of these standards helps to enhance the credibility of not-for-profit organizations and strengthen public trust in the third sector.

III. Research Method

This study uses a qualitative approach to analyze the application of Financial Accounting Standards Interpretation (ISAK) No. 35 in non-profit organizations. The qualitative approach was chosen because it aims to understand the meaning, interpretation, and perception in depth of the phenomenon under study (Raco, 2017).

Descriptive Qualitative Approach

The type of approach used in this research is descriptive qualitative. This approach is designed to provide a specific and detailed description of the phenomenon being studied. Through descriptive qualitative, researchers can describe the conditions, events, and situations that occur in the application of ISAK 35, thus providing a comprehensive understanding of the context and details of the application of these accounting standards.

Data Source

The main data source in this research is the financial statements published on the official website of the non-profit organization Ruang Belajar Aqil. The financial statements analyzed are for 2022, which is the first year the organization adopted ISAK 35. This document provides important and relevant information to evaluate how the accounting standard was implemented and how it impacts the organization's financial transparency and accountability.

Data Collection Process

Literature Research: Collecting information from various literatures relevant to ISAK 35 and accounting for non-profit organizations.

Field Research: Accessing and downloading the published financial statements on the Ruang Belajar Aqil website. The data collected was analyzed to evaluate the application of ISAK 35 in the organization's financial statements.

Location and Time of Research

This research was conducted at the non-profit organization Ruang Belajar Aqil, which is located in Malang City. The time of data collection was conducted in 2024. The data collection process took place during the period June 2024 to July 2024.

IV. Results and Discussion

The adoption of Financial Accounting Standards Interpretation (ISAK) No. 35 by the Ruang Belajar Aqil non-profit organization in 2022 represents a step forward in efforts to improve financial transparency and accountability. The adoption of this standard reflects the organization's commitment to comply with applicable accounting rules and regulations. An analysis of the financial statements published in 2022 reveals some important aspects related to the application of ISAK 35 as well as deficiencies that still exist in the financial statements.

Components of the Prepared Financial Statements:

- **Statement of Financial Position or Balance Sheet**

The balance sheet prepared by non-profit organizations includes assets, liabilities, and capital. Assets are divided into current and non-current assets, while liabilities consist of bank and trade payables. Capital consists of paid-up capital and retained earnings. This report has not been fully prepared in accordance with the provisions of ISAK 35 in terms of presentation and grouping of major accounts.

- **Income Statement**

This statement includes the income and expenses of a non-profit organization. Revenue consists of income from donations, contributions, and other activities. Expenses include operating, program, and administrative costs. This statement only details total revenues and expenses without presenting other comprehensive income. In accordance with ISAK 35, the statement of comprehensive income should include all components of comprehensive income, including changes in net assets.

- **Plan for the Use of Excess Residual**

This report details the planned use of surplus generated from the organization's activities, including allocations for future programs, reserve funds, and investments. The preparation of this plan is in accordance with the accounting objectives of non-profit organizations, but is not specifically regulated in ISAK 35. Nonetheless, transparency in the plan for the use of surplus is essential for accountability.

- **Income from donations**

This report details the total income from donations and the related total expenses and includes a description of the amount of surplus donations. This report helps in providing a clear picture of the sources and uses of donations, although not all details of other comprehensive income are included as per ISAK 35.

- **Notes to the Financial Statements**

The notes to the financial statements provide additional details about the accounting policies used, details of assets and liabilities, and explanations of certain items in the financial statements. The notes to the financial statements are well organized and provide the information necessary for a deeper understanding of the financial statements. More detailed disclosure of the components of comprehensive income needs to be improved.

Components of Financial Statements that Have Not Been Prepared and Do Not Meet the Provisions of ISAK 35

- **Statement of Changes in Net Assets**

Ruang Belajar Aqil has not prepared a statement of changes in net assets in its reporting. This statement should include changes in net assets during the reporting period, including other comprehensive income. ISAK 35 requires the presentation of changes in net assets to provide a complete picture of the organization's financial performance.

- **Cash Flow Statement**

Ruang Belajar Aqil has not prepared a cash flow statement, which should include cash flows from operating, investing and financing activities. This report is very important to assess the organization's ability to generate and manage cash.

- **Comprehensive Income Statement Lacks Details**

The organization has reported an income statement, but it only includes income and expenses, and net profit/loss. Other comprehensive income has not been included in the organization's income statement. This report should include all components of comprehensive income, including other unrealized

income. Currently, the statement of comprehensive income lacks detail and does not conform to the format of ISAK 35, which reduces clarity about the sources of the organization's comprehensive income.

The results of the analysis show that the preparation of the Ruang Belajar Aqil financial statements still does not fully comply with the provisions of ISAK 35. Some components of the financial statements have been prepared, such as the Statement of Financial Position or Balance Sheet, Income Statement, Plan for the Use of Residual Surplus, Donation Income, and Notes to Financial Statements. However, there are deficiencies in the presentation and grouping of the main accounts in the Statement of Financial Position. The Income Statement does not include other comprehensive income, and although the Plan for the Use of Surplus has been well prepared, transparency needs to be improved for better accountability.

Some important financial statement components have not been prepared, such as the Statement of Changes in Net Assets and the Statement of Cash Flows, which should provide a complete picture of the organization's changes in net assets and cash flows. In addition, the statement of other comprehensive income has not been included in detail in the income statement. Therefore, further improvements and adjustments are needed so that Ruang Belajar Aqil can present financial statements that are more in line with the ISAK 35 standard, so as to increase the clarity and credibility of the organization's finances in the eyes of the public and stakeholders.

V. Conclusion

The application of ISAK 35 in this non-profit organization is still not fully in accordance with the provisions of the standard. Some of the main financial statements have been prepared properly, but there are still deficiencies in the presentation of the statement of changes in net assets, cash flow statement, and details of comprehensive income. The organization should improve the preparation of financial statements by complying with the provisions of ISAK 35 thoroughly to improve transparency and accountability. Key recommendations include the preparation of statements of changes in net assets and cash flows, as well as improvements to the statement of comprehensive income. By continuing to improve and refine the application of ISAK 35, it is expected that Ruang Belajar Aqil can present financial statements that are more accurate, transparent and in accordance with applicable standards. The adoption of ISAK 35 not only assists in meeting regulatory obligations, but also increases the confidence of donors and other stakeholders. Organizations that are able to present financial statements well tend to be more trusted and gain greater support from the community.

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