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Economic Effect to Poor Accounting Practice and affect the Growth and Solvency of the Business in Pandemic Era

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***Abstract*---**This paper aims to know about a great number of firms in Indonesia that help the advancement and development of a country's economy. In 2017, there were 33,577 companies in medium large industries, not considering micro, small, and medium enterprises, which also exist to support Indonesia's development. Large and registered firms normally have a recording system that demonstrates the company's income or growth, but difficulties with the recording process are common, especially in organizations that do not become public or can be referred to as family businesses, indicating the presence of poor accounting. The methods of this research are qualitative methods. The result of this research is the practices such as equating cashflow to profits, ignoring small bills and payments, combining personal and business finances, delaying tax payment, failing to track labor, not keeping financial documents, not hiring professionals, and not using appropriate accounting software are all examples of poor accounting practices. Accounting is a tool that used to deliver information to parties in need, such as regulators and the government in taxing, creditors in deciding whether or not to provide loans, and investors in providing money to help a company grow. Poor accounting practices result in losses for all stakeholders and can lead to major issues if they are not addressed and continue to pile year after year. To avoid and resolve poor accounting practices, it is necessary to conduct auditing by a competent and independent institution so that any incorrect accounting activities can be corrected, and even if the company becomes known as a bad company, all existing audit findings can be used to correct all the existing errors.

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Introduction

According to FASB (2017), accounting is a process that provides useful data for company and decision making. Syaiful (2016), on the other hand, defines accounting as the art of documenting, classifying, summarizing, and reporting transactions in a methodical, content-based, and widely accepted manner. To put it another way, accounting can be seen as a business language that connects parties involved in decision making (Azmi et al., 2018). Each accounting data provided is converted into financial reports that can be used to ensure that company taxes are paid on time, evaluate inappropriate company budgets as recommendations to managers to reduce operational costs, and investigate if there is fraud in the course of a company with reports that are easily understandable by leaders, shareholders, and other stakeholders (Cavaliere et al., 2021). Accounting systems, according to Ntim, A. L. (2014), provide a source of information to owners and managers of SMEs operating in any industry for use in measuring financial performance. Accounting must be performed in line with generally recognized standards, often known as Financial Accounting Standards (FAS) during the process. FAS is a financial statement form and method that defines the standard guidelines for presenting financial information for a business activity. The guidelines governing the methods for creating financial reports serve as a tool for keeping stakeholders informed. This norm is enshrined in Indonesian law as SFAS (Statement of Financial Accounting Standards). The paper reviews the example and discussion of the Economic Effect of Poor Accounting Practices.

Literature Review

Kinney (2001) posits that accounting is one of the important types of information for decision making both within and outside the organizations. Decisions made by company owners that are based on inaccurate or incomplete financial information can actually cause problems that threaten the business's growth and stability.

The main reasons behind having such poor accounting environment are the lack of public accountability, lack of regulations, lack of mandatory audit requirement, lack of resources. Quality accounting information is very necessary in order to take efficient business and strategic decision (Hasibuan et al., 2020). According to the European Federation of Accountants, business decisions need to be supported by good quality financial information which needs to be relevant, user friendly and in timely manner. But many owners or managers operate their business activities without any accounting or financial judgment, take many important investment and credit decisions without any accounting and financial analysis.

Accounting is the foundation for making decisions and developing plans for the future of the firm in order to meet its objectives (Ramadhani et al., 2020). However, errors in the implementation of the accounting process are common, which can result in losses or a loss of trust from stakeholders.

Methods

The aim of the paper is to help users to know what is Poor Accounting Practices, its effect to the company and to sort out the solution to evade Poor Accounting Practices and restore the accountability of Company Financial Statement. As a result, the descriptive method was used in this study. The description concentrates on the issue of poor accounting practices and their economic consequences.

Results and Discussion

Result

As previously stated, poor accounting practices influence the decision making of various stakeholders and affect the growth and solvency of the business (Scialabba, 2022). Therefore, it is necessary to map out what can be considered poor accounting practices so that this can be studied by companies in running their business so that mistakes made by the company can be avoided.

1. Equating Cash Flows to Profits
   Companies frequently forget the precise recording process, resulting in several transactions. Cash flow in is frequently calculated as profit within the company, but it does not consider whether the Cash Flow in is the result of a business, payment of receivables from creditors, or loan money obtained, so it does not reflect actual profit conditions, whether the company makes a profit or not.
2. Ignoring Small Bills and Payments
   Small bills and payments, such as the cost of the director's lunch, the cost of purchasing paper, and the cost of cleaning and securing the area around the company, are frequently not included in the company's costs because they are often viewed as a very small value in comparison to the overall company's finances (Okina, 2022). This unrecorded expenditure means that the firm's finances can be spent as long as they do not surpass a certain amount, which will gradually result in long term losses for the company.
3. Mixing Personal Business Finances
   In companies managed directly by the owners of capital/main investors, mixing personal and business finances is common (Yang et al., 2022). However, the lack of separation between company and personal finances can cause bias in creating quality financial reports to show whether the company managed by the owner is producing a development or not. Whether the owner's dining costs are covered by the company or come out of owner’s personal pocket.
4. Delayed Tax Payment
   Companies that do Delaying Tax Payment, in Indonesia, according to Law No. 28 of 2007 regarding General Provisions and Tax Procedures, it is required for all taxpayers to report their SPT in accordance with the provisions and reporting limits that have been established. The Indonesian Directorate General of Taxes imposes a late payment penalty of 2% each month from the date the tax fees are not paid. That is why Accountants

ensure that the Tax is paid each year in order to avoid the fine (Niu et al., 2022).

5. Failed to Track The Labor Cost
   Labor is the engine of the company, they give a contribution to make sure the company able to perform and resulting in profit. However, if no records are kept regarding the number of employees and how much fees are given to employees each month or year, it will create issues such as the number of employees who are ambiguous or persons who are paid even though they are no longer employed by the company.
6. Not Keeping Financial Document
   During audits and calculations of financial statements, if the company does not have financial document evidence or does not file against each of these documents, it will be difficult for accountants and auditors to clarify a financial activity. The company in operation produces various financial documents, such as payment of debt, receipt of receivables, purchase of assets, sale of assets, payment of employee wages, and many other economic activities. Financial documents must be retained for at least 5 years in Indonesia so that they may be traced if difficulties develop.
7. Not Hiring Professionals
   Companies are eager to save money often cut operational costs, one of which is by reducing the number of accountants in a company or hiring people who have just finished or left the Accounting Study. This can affect the ability and even accountability of the firm's financial statements, especially if the company does not hire a professional accountant to audit the company financial report.
8. Not using appropriate accounting software.
   There are currently varieties of accounting software on the market, and this software makes it easier for accountants to input various costs and corporate receipts and may generate reports in a relatively quick period of time. Companies that do not use proper accounting software have a chance of producing financial reports that are not accurate due to human error in the addition and removal of costs within the company.

The cause above is only a small example of Poor Accounting Practices that are currently happening in many organizations. These Poor Accounting Practices lead to the un-accountability of Company Financial Statements, causing a lot of problems and losses for investors and the government.

Discussion

With the rapid growth of the business, the accounting issues encountered are becoming more diverse. The accountant's report is important for making informed judgments, so this issue should not be overlooked (Safira et al., 2020). Future improvements and developments have a big impact on the sustainability of the company's growth, which can provide outputs such as business expansion, profit growth, and other things.

Wu (2009) poor corporate accounting practices reduce the chance of detecting and exposing malfeasance, they open the door for shady exchanges with corrupt public officials. Boame, et al (2014) In other to solve limitations such as lack of finance, weak institutional capacity, lack of managerial skills and training of small-scale enterprises, there is need for relevant business and management expertise to manage properly the finance, purchasing, selling, production, and human resources aspects of the business.

The appearance of this situation requires the conduct of an audit. The audit can be performed by a government-owned auditor, or it can be performed concurrently with an audit by a professional independent accounting firm with responsibility in carrying out their work to check or prepare a company's financial report.

Even if the company is discovered to be underperforming or producing poor financial statements, the company can improve the keeping and recording of its financial statements so that company owners can focus on growing their business and investors have a strong reason to keep investing. If all companies have carried out accounting activities well, then the economic value of a company can be seen properly and the economic development of a country can get better every time.

Conclusion

The study's main goal was to examine the poor accounting practices and their effects on economic effects. Within large and registered industries normally they have a recording system that demonstrates the company's income or growth, but difficulties with the recording process are common, especially in organizations that do not become public or can be referred to as family businesses or company, indicating the presence of poor accounting. Practices such as equating cashflow to profits, ignoring small bills and payments, combining personal and business finances, delaying tax payment, failing to track labor, not keeping financial documents, not hiring professionals, and not using appropriate accounting software are all examples of poor accounting practices.

Accounting is a system and tools that used to deliver information to parties in need, such as regulators and the government in taxing, creditors in deciding whether or not to provide loans, and investors in providing money to help a company grow. Poor accounting practices may result in losses for all stakeholders and can lead to major issues if they are not addressed and will be continued to be piled year after year.

Poor Accounting Practices can be avoided if we conduct auditing by competent and independent institution that necessary so that any incorrect accounting activities can be corrected, and even if the company becomes known as a bad company, all existing audit findings can be used to correct all the existing errors.

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