

Implementation of Interpretation of Financial Accounting Standards (ISAK) 35 on The Financial Statements of Non-Profit Entities

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Abstract

This study aims to analyze the implementation of the Financial Accounting Standard Interpretation (ISAK) 35 in the financial statements of a non-profit entity, namely Foundation XX. This research is quantitative in nature. The data source consists of secondary data in the form of financial statements. The analysis was conducted by comparing the implementation of ISAK 35 in the financial statements of Foundation XX for the years 2021 and 2022 with ISAK 35. The results indicate that the preparation of financial statements for the years 2021 and 2022 at Foundation XX has adhered to ISAK 35, particularly in the cash flow statements and notes to the financial statements. However, in the statement of financial position, statement of comprehensive income, and statement of changes in net assets, there are some aspects that do not comply with ISAK 35. These discrepancies are due to the absence of certain accounts in the financial statements, which is a result of the lack of transactions related to those accounts.

Keywords: ISAK 35, Non-profit entity, Financial Statement

INTRODUCTION

Non-profit sector is an entity that focuses on supporting issues or activities related to social welfare, education, religion, and other community activities that are not profit-oriented (Anjani & Bharata, 2022; Purwanto, 2020; Effendy *et al.*, 2019). Therefore, to support its activities, non-profit entities receive funding from donors, both domestic and international. To gain trust and support from donors, non-profit entities require well-prepared financial statements. The presentation of financial statements is also related to the concept of accountability, which involves the delivery of financial reports as a means of accountability, and the concept of transparency, which ensures openness to minimize the potential for financial mismanagement (Safitri & Narastri, 2023). Financial mismanagement has serious implications, potentially leading to financial losses, damage to reputation, and legal consequences.

Financial statements are expected to provide information that facilitates decision-making for users, enabling them to make sound financial decisions (Safitri *et al.*, 2022). These decisions help stakeholders strategize effectively to achieve their objectives. The presentation of financial statements for non-profit entities was previously governed by the Financial Accounting Standards Statement (PSAK) 45 but, in 2019, was revised to the Interpretation of Financial Accounting Standards (ISAK) 35, necessitating adjustments to financial reporting in accordance with its provisions.

Non-profit entities differ from business entities; although they are not profit-oriented, they still face financial challenges due to operational expenses, such as electricity, water, and telephone costs (Simanjuntak & Purba, 2022; Shoimah *et al.*, 2021). Thus, better account identification is needed to enhance the management of non-profit entities. According to ISAK 35, non-profit entities' financial statements consist of five components: the statement of financial position, the statement of comprehensive income, the statement of changes in net assets, the cash flow statement, and the notes to the financial statements (Maghfira *et al.*, 2022).

Interpretation of Financial Accounting Standards (ISAK) 35 is effective for fiscal periods beginning on or after January 1, 2020 (Wardani *et al*,2024). ISAK 35, which governs the Presentation of Financial Statements for Non-Profit Entities, was implemented to replace PSAK 45. The Financial Accounting Standards Statement 45 (PSAK 45) provides guidelines for the preparation of financial statements for not-for-profit entities, issued by the Financial Accounting Standards Board of the Indonesian Institute of Accountants (DSAK IAI,2018). This standard provides guidance on how not-for-profit entities should present certain items in their financial statements in accordance with the interpretations outlined in ISAK 35 (Shoimah *et al*,2021).

The implementation of ISAK 35 financial reporting guidelines is expected to create financial reporting of non-profit organizations easier to understand, more relevant, and more appealing. In addition, the system and procedures in preparing financial reports are expected to strengthen internal controls, especially in the financial field, as one of the benchmarks for the development of an entity. One of the non-profit organizations that should implement ISAK 35 is the XX Foundation. XX Foundation has a desire to improve the quality of its financial reporting through the efforts of audit services to the Accounting Services Office (KJA). Furthermore, the management of XX Foundation believes it is necessary to prepare financial reports in accordance with ISAK 35, as the credibility and accountability of financial reports are crucial for enhancing global competitiveness.

As noted in previous studies, Lasfita & Muslimin (2020) reported that the financial reporting in a mosque located in Surabaya was limited to a basic record of income and expenditures. Similarly, Maulana & Rahmat (2021) found that the large Al-Atqiyah mosque still used a cash basis for its reporting, which was communicated every Friday via the mosque's microphone. Additionally, the An-Nahl Foundation has yet to fully adopt ISAK 35, as the accounts presented in its financial statements remain incomplete (Afifah & Faturrahman, 2021). In light of the accountability and transparency demands for financial statements, this study is titled "The Implementation of the Interpretation of Financial Accounting Standards (ISAK) 35 on the Financial Statements of Non-Profit Entities." The objective is to assess and evaluate whether the financial statements of non-profit entities comply with the applicable provisions of ISAK 35.

LITERATURE REVIEW

Non-Profit Organizations

Non-profit organizations are entities that do not primarily aim to generate profit and can be owned by either the government or the private sector. Non-profit organizations differ significantly from commercial organizations, whose primary goal is profit-making, whereas non-profit organizations do not prioritize profit as their main objective. The main capital for non-profit organizations comes from contributions by members and donors. These members and donors do not expect any return on the donations they provide. Although donors do not expect financial returns, they do require accountability for the funds given. This accountability from the management of non-profit organizations can be provided in the form of reporting.

Nonprofit Financial Statements

Organizations need to prepare financial statements as a report of accountability for the donations received. The financial statements of Non-Profit Organizations include:

- a. Statement of financial position at the end of the period
- b. Statement of Comprehensive income
- c. Statement of Net Assets
- d. Statement of Cash flow for a reporting period
- e. notes on financial statements.

Financial Accounting Standards for Nonprofit Entities

The accounting standard used by non-profit organizations is the Interpretation of Financial Accounting Standards (ISAK) 35. ISAK 35 addresses the presentation of financial statements for non-profit-oriented entities. ISAK 35 was issued by the Financial Accounting Standards Board of the

Indonesian Institute of Accountants (DSAK IAI). According to ISAK 35, the preparation of financial statements must include five components: the statement of financial position, the statement of comprehensive income, the statement of changes in net assets, the statement of cash flows, and the notes to the financial statements.

Foundation

According to Law No. 28 of 2004, a foundation is a legal entity comprising dedicated assets and aims to achieve specific objectives in the fields of social, religious, and humanitarian activities. The principles that must be understood in the foundation are as follows:

- a. A foundation consists of a board that includes supervisors, administrators, and overseers
- b. A foundation can support its objectives by engaging in business activities and achieving its goals through the establishment of business entities or participation in business ventures.
- c. A foundation is not permitted to distribute the proceeds of its business activities to the supervisors, administrators, and overseers.
- d. The assets of a foundation must not be transferred or distributed directly or indirectly, whether in the form of salaries, wages, honorariums, or other forms that can be valued in monetary terms, to the supervisors, administrators, and overseers.
- e. The assets of a foundation come from a set of separated assets in the form of money or goods.

Agency Theory

Agency Theory explain the relation between shareholders and management, characterized by the principal-agent relationship. This theory describes agreement in which one or more (the owner or principal) engages another person (the agent) to perform certain services based on their interests and involves the delegation of some decision-making authority to the agent. Conflict of interest between the agent and the principal arises due to differing interests between two parties. The agent has more information than the principal. It leads to information asymmetry. Information asymmetry refers to imbalance in the acquisition of information between the management, which provides the information, and the shareholders/stakeholders, who are users of the information.

METHODS

Research Methods

This research uses descriptive study method. The type and source of data for the study were obtained from secondary data at the XX Foundation through data collection, observation, and interviews. The data collection techniques in this study involved observation and interviews conducted directly at the research site at the xx Foundation.

RESULT AND DISCUSSION

Recognition and Measurement of Items in the Foundation's Financial Statements xxx Foundation

1. Statement of Financial Position

- a. Current Assets. Cash and cash equivalents, as well as receivables recorded by the xxx foundation, have been recognized as current assets and presented in their nominal value. The recognition and measurement of cash comply with the applicable ISAK 35.
- b. Non-Current Assets. Recognition of non-current assets at the xxx foundation includes buildings and equipment such as computers, which are recorded at their nominal value under fixed assets. Details of fixed assets owned by the xxx Foundation are attached to the financial statement appendices. The recognition and measurement of non-current assets at the xxx foundation comply with the applicable ISAK 35.
- c. Liabilities. The xxx Foundation records short-term liabilities in the form of deferred revenue, which will later be delivered either as asset transfers or service provision. These liabilities are

recorded at their nominal value, ensuring that the recognition and measurement of the liability items comply with the applicable ISAK 35.

- d. Net Assets. The net assets of the xxx Foundation only include unrestricted net assets, which are recorded at their nominal value.
2. Statement Comprehensive Income
 - a. Without Donor Restrictions. The xxx Foundation records revenue and expenses without donor restrictions, detailing the income items according to their actual sources and nominal value. Thus, the recognition and measurement of these items comply with the applicable ISAK 35.
 - b. With Donor Restrictions. The xxx Foundation records revenue and expenses with donor restrictions, detailing the income and expense items according to their actual sources and nominal value. This ensures that the recognition and measurement of these items comply with the applicable ISAK 35.
3. Statement of Changes in Net Assets

The statement of changes in net assets at the xxx Foundation has classified unrestricted net assets, restricted net assets, and other comprehensive income accurately and recorded them at their nominal value. Therefore, the recognition and measurement of these items comply with the applicable ISAK 35.
4. Statement of Cash Flow

The statement of cash flows of the xxx Foundation presents information on cash inflows and outflows during a reporting period. Therefore, the recognition and measurement of these items comply with the applicable ISAK 35.
5. Notes to the Financial Statements

The statement of cash flows of the xxx Foundation presents information on cash inflows and outflows during a reporting period. Therefore, the recognition and measurement of these items comply with the applicable ISAK 35.

Presentation and Disclosure

1. Statement of Financial Position

The xxx foundation presents assets in the statement of financial position based on the liquidity of asset items, such as current assets and non-current assets. This approach is highly informative and facilitates the users of the financial statements. The items presented by the xxx Foundation include cash and cash equivalents, receivables, fixed assets, deferred revenue, and unrestricted net assets. Based on the nominal amounts listed in the statement of financial position, the xxx Foundation experienced a decrease in nominal value of IDR 478,945,129 in 2022 from IDR 662,333,264 in 2021. The statement of financial position of the xxx Foundation does not include inventory, as the xxx Foundation is a non-profit organization.

XXX FOUNDATION STATEMENT OF FINANCIAL POSITION As of December 31, 2022 and 2021 (In Rupiah)			
	<i>Notes</i>	2022	2021
ASSET			
Current Asset			
Cash and Cash Equivalent		318.836.450	463.966.729
Account Receivables		2.010.345	17.394.000
Total Current Assets		320.846.795	481.360.729
Non Current Asset			
Net Fixed Asset		158.098.334	180.972.535
Total Non Current Asset		158.098.334	180.972.535
TOTAL ASSETS		478.945.129	662.333.264
LIABILITIES AND NET ASSETS			
Short Term Liabilities			
Prepaid Income		47.040.057	-
Total Short Term Liabilities		47.040.057	-
Total Liabilities		47.040.057	-
NET ASSETS			
Beginning Balance of Net Assets			
Without Restrictions From Resource Providers		431.905.072	662.333.264
Total Net Assets		431.905.072	662.333.264
TOTAL LIABILITIES AND NET ASSETS		478.945.129	662.333.264

Figure 1. Financial Position Statement
Source : Internal Data (Foundation xxx, 2024)

2. Comprehensive Income Report

In the statement of comprehensive income of the xxx Foundation, it can be seen that the item without donor restrictions shows an amount of IDR 233,128,193, while the item with donor restrictions shows an amount of IDR 0.

XXX FOUNDATION
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2022 and 2021
(In Rupiah)

	Notes	2022	2021
WITHOUT RESTRICTION			
FROM RESOURCES			
Revenues			
Internal Contribution		182.913.750	51.380.755
External Contribution		-	49.275.000
Others		466.405	1.165.408
Total Revenues		183.380.155	101.821.163
Expenses			
Institutional Development		388.385.166	276.892.227
Depreciation Expense		25.574.201	34.620.550
Others		2.548.981	2.809.182
Total Expenses		416.508.348	314.321.959
Surplus (Deficit)		(233.128.193)	(212.500.796)
WITH RESTRICTION			
FROM PROVIDER			
Revenues			
Global Alliance Against		110.687.845	112.375.000
Traffic In Women (GAATW)			
World Women's Bank (WEB)		254.607.093	-
The Global Fund (TGD)		-	99.102.898
The Taiwan Foundation for		-	41.000.000
Democracy (TFD) Grants			
Total Revenues		365.294.938	252.477.898
Expenses			
Global Alliance Against		110.687.845	112.375.000
Traffic In Women (GAATW)			
World Women's Bank (WEB)		254.607.093	-
The Global Fund (TGD)		-	99.102.898
The Taiwan Foundation for		-	41.000.000
Democracy (TFD) Program			
Total Expenses		365.294.938	252.477.898
Surplus (Deficit)		(233.128.193)	(212.500.796)

Figure 2. Comprehensive Income Statement
Source: Internal Data (xxx Foundation, 2024)

3. Statement of Changes in Net Assets

In the statement of changes in net assets of the xxx Foundation, the amount in the item of net assets without donor restrictions is shown as IDR 431,905,072, while the item with donor restrictions shows an amount of IDR 0. Over the past two years, the xxx Foundation has not had any net assets with donor restrictions.

XXX FOUNDATION STATEMENT OF CHANGES IN NET ASSETS For the year ended December 31, 2022 and 2021 (In Rupiah)		
	2022	2021
NET ASSET WITHOUT RESTRICTIONS FROM THE PROVIDER OF FUNDS SOURCE		
<i>Opening Balance</i>	662.333.264	872.479.652
<i>Current Year Surplus</i>	(233.128.192)	(212.500.796)
<i>Addition of net assets without restrictions from resource providers</i>	2.700.000	2.354.408
Ending Balance	431.905.072	662.333.264
OTHER COMPREHENSIVE INCOME		
<i>Opening Balance</i>	-	-
<i>Other Comprehensive Income for the year</i>	-	-
Ending Balance	-	-
Total Net Assets Without Restrictions from the Resource Provider	431.905.072	662.333.264
NET ASSETS WITH RESTRICTIONS FROM RESOURCES		
<i>Opening Balance</i>	-	-
<i>Current Year Surplus</i>	-	-
<i>Net assets that are exempt from restrictions</i>	-	-
Ending Balance	-	-
TOTAL NET ASSET	431.905.072	662.333.264

Figure 3. Net Asset Statement

Source: Internal Data (xxx Foundation, 2024)

4. Cash Flow Statement

In the statement of cash flows of the xxx Foundation, there was a decrease in cash flows in 2022 amounting to IDR 318,706,170. This was due to an increase in the item of changes in net assets

before operating activities, resulting in a decrease in cash and cash equivalents at the end of the year.

XXX FOUNDATION		
STATEMENT OF CASH FLOWS		
For the year ended December 31, 2022 and 2021		
(In Rupiah)		
	2022	2021
<i>Cash Flow from Operating Activities</i>		
<i>Net Assets Before Changing Operating Activity</i>	(233.128.192)	(212.500.796)
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
<i>Accumulated Depreciation of Fixed Assets</i>	25.574.201	34.620.550
<i>Increase (Decrease) In Operating Activity:</i>		
<i>Unearned Revenue</i>	47.040.057	(101.102.844)
<i>Account Receivable</i>	15.383.655	750.000
<i>Net Cash received/ (used) for operating activities</i>	(145.130.279)	(278.233.090)
<i>Cash Flow from Investment Activities</i>		
<i>Fixed Asset Addition</i>	(2.700.000)	-
<i>Net cash received/ (used) for investing activities</i>	(2.700.000)	-
<i>Cash Flow from Financing Activities</i>		
<i>Net Asset Correction</i>	2.700.000	2.354.408
<i>Net Cash received (used) for Financing activities</i>	2.700.000	2.354.408
<i>Increase/ (Decrease) in Cash and Cash Equivalents</i>	(145.130.279)	(275.878.682)
<i>Cash and Cash Equivalents at Beginning of Year</i>	463.836.449	739.845.411
<i>Cash and Cash Equivalents at End of Year</i>	318.706.170	463.966.729

Figure 4. Cash Flow Statement
Source: Internal Data (xxx Foundation, 2024)

Analysis of the Conformity of ISAK 35 Accounts in the Financial Statements of the xxx Foundation

1. Statement of Financial Position

Table 1. Standard Item The Statement of Financial Position
Standard Items in the Statement of Financial Position According to ISAK 35

The Statement of Financial Position should include at least the following items			
Account	Based on Isak 35	By Foundation xxx	Description
Assets	Available	Available	
Current Assets	Available	Available	
Non-current Assets	Available	Available	
Liabilities	Available	Available	
Long-term Liabilities	Available	Not Available	The xxx Foundation has no long-term liabilities
Short-term Liabilities	Available	Available	
Net Assets	Available	Available	
With Restrictions from Resources	Available	Not Available	The xxx foundation has no net assets with restrictions from resources.
No Restrictions from Resources	Available	Available	

Source: DE ISAK 35

2. Comprehensive Statement

Table 2. Standard Items in the Comprehensive Statement
Standard Items in the Comprehensive Statement According to ISAK 35

The Comprehensive Report should include at least the following items			
Account	Based on Isak 35	By Foundation xxx	Description
Revenue	Available	Available	
Load	Available	Available	
Surplus (Deficit)	Available	Available	
Other Comprehensive Income	Available	Not Available	Foundation xxx has no other comprehensive income
Total Comprehensive Income	Available	Available	

Source: DE ISAK 35

3. Net Assets Statement

Table 3. Standard Items in the Net Assets Statement
Standard Items in the Net Assets According to ISAK 35

The Statement of Net Assets should include at least the following items			
Account	Based on Isak 35	By Foundation xxx	Description
Unrestricted Net Assets from Resources	Available	Available	
Net Assets With Restrictions from Resources	Available	Available	
Change in Net Assets	Available	Not Available	The xxx foundation does not have a change in net assets account
Total Net Assets	Available	Available	

Source: DE ISAK 35

4. Cash Flow Statement

Table 4. Standard Items in the Cash Flow Statement
Standard Items in the Cash Flow Statement According to ISAK 35

The Cash Flow Statement should include at least the following items			
Account	Based on Isak 35	By Foundation xxx	Description
Cash Flow from Operating Activities	Available	Available	

Cash Flow from Investing Activities	Available	Available	
Cash Flow from Financing Activities	Available	Available	
Cash and Cash Equivalents at the Beginning of the Period	Available	Available	
Cash and Cash Equivalents at End of Period	Available	Available	

Source: DE ISAK 35

5. Notes to the Financial Statements

Table 5. Standard Items in the Notes to the Financial Statements

Standard Items in the Notes to the Financial Statements According to ISAK 35

Notes to the Financial Statements should include at least the following items			
Account	Based on Isak 35	By Foundation xxx	Description
Accounting Policy	Available	Available	
Asset Details	Available	Available	
Liability Breakdown	Available	Available	
Net Assets Breakdown	Available	Available	
Revenue Details	Available	Available	
Details of Expenses	Available	Available	
Components of Net Assets with Restrictions from Resources	Available	Available	
Unrestricted Net Assets Component of Resources	Available	Available	

Source: DE ISAK 35

CONCLUSION

Based on the analysis and discussion above, the author concludes that the preparation of the 2021 and 2022 financial statements for Foundation XX has followed ISAK 35, particularly in the cash flow statements and notes to the financial statements. However, in the statements of financial position, comprehensive income, and changes in net assets, there are some aspects that do not comply with ISAK 35. This non-compliance is due to the absence of certain accounts in the financial statements, as there were no transactions involving the related accounts. The accounts in question include long-term liabilities and restricted resource accounts in the statement of financial position; other comprehensive income accounts in the comprehensive income statement; and changes in net assets in the statement of changes in net assets. With this research, it is hoped that Foundation XXX will continue to uphold financial accountability and transparency in its financial statements by implementing ISAK 35.

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