

*Research Article*

# Implementation of Non-Profit Entity Accounting (PSAK 45) at the Istiqomah Foundation

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**Abstract.** This study examines the application of Financial Accounting Standards Statement 45 on Financial Reporting of Non-Profit Entities at the Istiqomah Foundation, which operates in the education sector. Non-profit organizations, especially educational foundations, require an accountable financial reporting system to maintain stakeholder trust. The purpose of this study is to analyze the conformity of the Istiqomah Foundation's accounting practices with PSAK 45 standards and to identify obstacles encountered in its implementation. The research method uses a descriptive qualitative approach with data collection techniques through interviews, observation, and documentation. The results show that the Istiqomah Foundation has prepared a statement of financial position and activity report, but there are still deficiencies in the presentation of the cash flow statement and notes to the financial statements. The classification of net assets is not fully in accordance with the provisions of PSAK 45, which distinguishes between permanently restricted, temporarily restricted, and unrestricted net assets. The main obstacles found include limited human resources who understand non-profit accounting and the absence of an adequate computerized accounting system. The study recommends the need for non-profit accounting training for foundation financial managers and the development of an accounting information system that is appropriate to the characteristics of non-profit educational entities.

**Keywords:** Educational Foundations; Financial Reports; Non-Profit Accounting; PSAK 45; Transparency

## 1. Introduction

Foundations, as non-profit organizations, play a strategic role in community development, particularly in education. According to data from the Ministry of Law and Human Rights of the Republic of Indonesia in 2024, there were more than 300,000 officially registered foundations in Indonesia, with approximately 65% operating in the education and social sectors. Educational foundations significantly contribute to providing access to quality education for the community. However, transparent and accountable financial management is crucial to maintaining public trust and the sustainability of foundation operations. The Istiqomah Foundation is an educational institution that manages schools from elementary to secondary levels in Central Java. Established in 2010, the foundation has served more than 1,200 students, supported by 85 teaching and administrative staff. The foundation's funding comes from donations from patrons, student tuition fees, and government assistance through the School Operational Assistance program. In carrying out its operations, the foundation manages substantial funds, with total assets reaching Rp 8.5 billion in 2024 and annual revenues of approximately Rp 4.2 billion.

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Financial Accounting Standards Statement No. 45, issued by the Indonesian Institute of Accountants, provides financial reporting guidelines for nonprofit entities. PSAK 45, last revised in 2011, addresses the characteristics of nonprofit entities' financial statements, which differ from those of business entities. This standard emphasizes the presentation of information regarding providers of resources who do not expect compensation, services rendered, and the entity's ability to continue providing services. The required financial statements include a statement of financial position, a statement of activities, a statement of cash flows, and notes to the financial statements. The application of PSAK 45 to educational foundations faces various practical challenges. Research conducted by Sulistyowati (2019) on 45 foundations in the Special Region of Yogyakarta showed that only 28% of foundations prepare financial statements in full accordance with PSAK 45. A study by Pratama and Wibowo (2021) found that 67% of educational foundations in East Java still use a simple cash inflow and outflow recording system without classifying net assets according to their level of restrictions. This situation raises questions about the quality of financial reporting and the accountability of educational foundations in Indonesia.

The gap between accounting practices that should be implemented and actual conditions on the ground is caused by several factors. First, foundation managers' understanding of nonprofit accounting standards remains limited. A 2023 survey by the Center for Public Sector Accounting Studies at Gadjah Mada University showed that 72% of foundation financial managers lack an accounting background. Second, the perception that foundations, as nonprofit organizations, do not need to implement complex accounting systems remains quite strong. Third, limited financial resources are available to develop accounting systems and recruit accounting professionals. Financial accountability for educational foundations is not merely an administrative obligation but a form of moral responsibility to those who have entrusted funds to provide education. Foundation trustees, parents, the government, and the public have the right to know how the funds provided are managed and used. Transparency in financial reporting can increase public trust, which in turn encourages continued support for the foundation. Conversely, unclear financial management can raise suspicion and undermine the foundation's credibility.

Regulations governing foundations also emphasize accountability. Law No. 16 of 2001 concerning Foundations, as amended by Law No. 28 of 2004, mandates that foundation managers must prepare an annual report that is accountable to the board of directors. The annual report must contain at least a financial statement consisting of a balance sheet, calculation of operating results, a cash flow statement, and notes to the financial statements. Although the law does not explicitly mention PSAK 45, this standard is a relevant technical reference for the preparation of foundation financial statements. The phenomenon occurring at the Istiqomah Foundation reflects the general condition of educational foundations in Indonesia. Initial observations indicate that the foundation has prepared financial statements, but the format does not fully adhere to PSAK 45. The reports prepared are mostly records of cash receipts and disbursements without clear classifications regarding types of activities and restrictions on the use of funds. Information regarding assets, liabilities, and net assets has not been presented in a structured manner. This condition indicates a need to evaluate and improve the financial reporting system.

Research on the implementation of PSAK 45 in educational foundations is still limited, especially those using an in-depth case study approach on a single entity. Previous studies have been more survey-based with a large sample size but have not delved into the details of accounting practices and factors influencing the implementation of the standard. This study seeks to fill this gap by exploring in detail how the Istiqomah Foundation applies PSAK 45 in its accounting practices, the obstacles encountered, and the steps that can be taken to improve the quality of financial reporting. The urgency of this research

lies in the need to encourage educational foundations to implement accounting systems that comply with standards. By understanding the real conditions on the ground and the factors that hinder implementation, applicable recommendations for improvement can be formulated. The results of this study are expected to provide practical benefits for the Istiqomah Foundation, especially in improving its financial reporting system. Theoretically, this research adds to the literature on nonprofit accounting in Indonesia, particularly in the education sector.

The problem formulation in this study is how the implementation of PSAK 45 at the Istiqomah Foundation is seen from the completeness and suitability of the prepared financial reports, what are the obstacles faced in the implementation of non-profit accounting standards, and how efforts can be made to improve the quality of the foundation's financial reporting. The objectives of the study are to analyze the suitability of the Istiqomah Foundation's accounting practices with the provisions of PSAK 45, identify factors that hinder the implementation of standards, and formulate recommendations for improving the foundation's financial reporting system.

## **2. Literature Review**

### **Non-Profit Organizations and Their Characteristics**

A nonprofit organization is an entity whose primary purpose is not to seek profit for the benefit of owners or investors. Anthony and Young (2003) define a nonprofit organization as an entity whose resources come from donors who do not expect repayment or economic benefits commensurate with the amount given. The main characteristics of nonprofit organizations according to Bastian (2007) include resources coming from resource providers who do not expect compensation, producing goods or services without the aim of generating profit, and no ownership as in business organizations. Hansmann (1980) in his classic article explains that nonprofit organizations are limited by the non-distribution constraint, namely the prohibition on distributing profits to those who control the organization. All surpluses obtained must be used to achieve the organization's goals.

Weisbrod (1988) added that non-profit organizations tend to operate in areas that are less attractive to the business sector because they are not economically profitable but have high social value such as education, health, and social services. Foundations as a form of non-profit organization in Indonesia are regulated in Law Number 16 of 2001 concerning Foundations as amended by Law Number 28 of 2004. A foundation is defined as a legal entity consisting of separated assets and allocated to achieve certain goals in the social, religious, and humanitarian fields. The foundation's organs consist of advisors, administrators, and supervisors with clearly regulated functions and authorities to ensure management accountability.

### **Statement of Financial Accounting Standards 45**

PSAK 45 on Financial Reporting of Non-Profit Organizations was first published by the Indonesian Institute of Accountants in 1997 and then revised in 2011. This standard adopts Statement of Financial Accounting Standards Number 116 and 117 issued by the Financial Accounting Standards Board in the United States. PSAK 45 provides guidance on the presentation of financial statements for non-profit entities with the aim of improving the quality of relevant, reliable, comparable, and understandable financial statements. According to the 2011 revised PSAK 45, the objective of non-profit entity financial statements is to provide relevant information to meet the interests of resource providers who do not expect compensation, members, creditors, and other parties who provide resources to non-profit entities.

These parties require information to make resource allocation decisions, assess the services provided, and the entity's ability to provide services on an ongoing basis. The

information presented should enable users to evaluate performance over a period, assess efforts and ability to continue providing services, and assess the implementation of management responsibilities. According to PSAK 45, the financial statements of non-profit entities consist of a statement of financial position, a statement of activities, a statement of cash flows, and notes to the financial statements. The statement of financial position presents assets, liabilities, and net assets at the end of the reporting period. Net assets are classified into three categories: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets are the portion of net assets that are not restricted by the donor. Temporarily restricted net assets are the portion of net assets whose use is restricted by the donor for a specific purpose or a specific time period. Permanently restricted net assets are the portion of net assets whose use is permanently restricted by the donor, but the entity is permitted to use some or all of the proceeds from those assets.

The statement of activities presents changes in net assets during a reporting period. This report classifies revenues and expenses based on the presence or absence of donor restrictions. Revenues should be presented as an addition to unrestricted, permanently restricted, or temporarily restricted net assets, depending on the presence or absence of restrictions. Expenses are presented as a reduction to unrestricted net assets because the implementation of programs, services, and other activities essentially fulfills the entity's primary purpose. The statement of cash flows presents cash receipts and disbursements during a period, classified into operating, investing, and financing activities. This classification helps report users understand the entity's sources and uses of cash. The notes to the financial statements contain additional information necessary to understand the financial statements, such as accounting policies, details of specific items, and other information not presented in the main statements but necessary for fair presentation.

### **Previous Research on the Implementation of PSAK 45**

Several studies have been conducted to evaluate the implementation of PSAK 45 in various types of non-profit organizations in Indonesia. Mahmudi (2009) conducted a study of religious organizations in Yogyakarta and found that most organizations had not prepared financial reports in accordance with PSAK 45. The main obstacles identified were managers' lack of understanding of accounting standards and the perception that non-profit organizations do not require a formal accounting system. Widyastuti's (2012) study of educational foundations in Jakarta showed that of the 50 foundations sampled, only 18, or 36%, had prepared complete financial reports in accordance with PSAK 45. Most foundations only prepared simple cash receipts and expenditures reports. Factors influencing the level of compliance were the size of the foundation, the education level of the financial managers, and the support of the foundation's advisors for the implementation of good accounting.

Rohayati and Fauzi (2017) studied 30 social foundations in West Java and found that the level of understanding of foundation administrators regarding PSAK 45 was still low with an average understanding score of 42 out of 100. The study also revealed that there was no significant relationship between the size of the foundation and the level of compliance with PSAK 45. Instead, the factors that had a significant influence were the educational background of financial managers and the availability of accounting information systems. A study conducted by Sulistyowati (2019) on 45 foundations in the Special Region of Yogyakarta using survey methods and document analysis showed similar results. Only 28% of foundations prepared the four types of financial reports required by PSAK 45. Most foundations only presented a statement of financial position and activity report without adequate cash flow statements and notes to the financial statements. The classification of net assets was also not carried out correctly, with most foundations not distinguishing between restricted and unrestricted net assets.

Pratama and Wibowo (2021) studied 78 educational foundations in East Java, focusing on factors influencing the quality of financial reports. The results showed that human resource competency, information technology utilization, and internal control systems had a positive and significant impact on the quality of foundation financial reports. This study recommends the need for accounting training for foundation financial managers and the implementation of accounting information systems appropriate to the characteristics of non-profit entities. Research by Anggraini et al. (2022) used a qualitative approach to explore accounting practices in three Islamic educational foundations in West Sumatra. The results showed that all three foundations were aware of the importance of good financial reporting but were hampered by limited human resources and the lack of technical guidance that was easily understood by practitioners. This study suggests the need for assistance from academics or consultants in implementing PSAK 45.

### **Benefits of Implementing PSAK 45 for Educational Foundations**

The implementation of PSAK 45 provides various benefits for educational foundations. First, it increases transparency and accountability in financial management. By presenting comprehensive and standardized financial reports, stakeholders can assess how the funds entrusted to the foundation are managed and used. This aligns with research by Connolly and Hyndman (2004), which found that financial transparency in nonprofit organizations is positively correlated with donor trust and the sustainability of financial support. Second, it facilitates better decision-making by foundation managers. Systematically presented financial information allows administrators to analyze financial performance, evaluate the efficiency of resource use, and better plan future activities. Kaplan (2001) emphasized that nonprofit organizations that implement good accounting practices tend to have better organizational performance because they are able to allocate resources optimally.

Third, fulfilling legal and regulatory obligations. The Foundation Law mandates that the board of directors prepare an annual report that includes financial statements. The implementation of PSAK 45 ensures that the foundation has fulfilled this obligation to professionally recognized standards. Compliance with regulations also reduces legal risks that may arise from reporting omissions. Fourth, increasing the foundation's credibility in the public eye. Foundations that present audited and standardized financial reports are viewed as more credible and professional. This can enhance the foundation's ability to raise funds from the public or donor agencies. Research by Tinkelman and Mankaney (2007) shows that nonprofit organizations that are more transparent in their financial reporting tend to receive larger donations than those that are less transparent.

### **Theoretical Framework**

This study uses agency theory and legitimacy theory as theoretical frameworks. Agency theory, developed by Jensen and Meckling (1976), explains the relationship between principal and agent, where the agent is authorized to act on behalf of the principal. In the context of a foundation, the board of directors acts as an agent authorized by the principal to manage the foundation's assets. This theory emphasizes the importance of accountability and transparency to address information asymmetry between principal and agent. Cordery and Baskerville (2011) apply agency theory to the context of non-profit organizations, emphasizing that although there is no ownership relationship as in business organizations, an agency relationship still exists between the manager and the provider of resources. Standardized financial reporting is a mechanism to reduce information asymmetry and ensure that managers act in accordance with the interests of the provider of resources and the organization's goals.

The legitimacy theory developed by Suchman (1995) explains that organizations need to gain legitimacy from their environment to survive and thrive. Legitimacy is the

perception or assumption that an entity's actions are desirable, appropriate, or in accordance with the system of norms, values, beliefs, and definitions that exist in society. Nonprofit organizations rely heavily on social legitimacy because their existence and the support they receive are heavily influenced by public perception. O'Dwyer (2005) explains that nonprofit organizations use financial reporting as a strategy to gain and maintain legitimacy. By presenting transparent and accountable financial reports, organizations demonstrate that they operate in accordance with societal norms and expectations. The implementation of recognized accounting standards such as PSAK 45 is a form of conformity legitimacy where organizations strive to adapt to applicable rules and standards.

### 3. Methodology

This study uses a qualitative approach with a descriptive method to analyze the implementation of PSAK 45 at the Istiqomah Foundation. The qualitative approach was chosen because the study aims to deeply understand the phenomenon of the application of non-profit accounting in the natural context of the foundation. Creswell (2014) explains that a qualitative approach is suitable for use when researchers want to explore and understand the meaning that individuals or groups attribute to a social or humanitarian problem. The descriptive method is used to systematically describe the facts and characteristics of the object being studied accurately. The research location is the Istiqomah Foundation, located in West Ungaran District, Semarang Regency, Central Java Province. The selection of the research location was carried out purposively with the consideration that the foundation is an educational foundation that has been operating for more than ten years, manages substantial funds, and has a relatively complete organizational structure. The research period was carried out for four months from June to September 2024 covering the preparation stage, data collection, data analysis, and report preparation.

The research data sources consisted of primary and secondary data. Primary data were obtained through in-depth interviews with key informants, including the foundation chairman, treasurer, school principal, and financial staff. Informants were selected purposively based on their understanding of and direct involvement in the foundation's financial management. Secondary data were obtained from foundation documents, including financial statements from 2022 to 2024, cash books, transaction journals, the foundation's articles of association and bylaws, and other supporting documents. Data collection techniques used included interviews, observation, and documentation. Interviews were conducted in a semi-structured manner, with the researcher preparing interview guidelines but still providing flexibility to explore information that emerged during the interview. Each informant was interviewed for 60 to 90 minutes, covering topics including the transaction recording system, the financial statement preparation process, understanding of PSAK 45, obstacles encountered, and efforts made to improve the quality of financial reporting. Interviews were recorded with the informant's consent and then transcribed for analysis.

Observations were conducted by directly observing the financial transaction recording process, document archiving system, and the use of information technology in financial management. Observations helped researchers understand the context and real practices occurring in the field that might not be revealed through interviews. Documentation was conducted by collecting and analyzing the foundation's financial documents. Researchers checked the completeness of the financial reports, the conformity of the presentation format with PSAK 45, and the quality of information disclosure in the reports. The data analysis technique used the Miles and Huberman (1994) model, which consists of three stages: data reduction, data presentation, and conclusion drawing. Data reduction was carried out by summarizing, selecting key points, focusing on things relevant

to the research objectives, and removing unnecessary data. Interview transcripts were read repeatedly to identify emerging themes and patterns. Data relevant to the implementation of PSAK 45 were categorized and coded to facilitate analysis.

Data presentation was carried out by systematically organizing information for easy understanding. Data were presented in the form of descriptive narratives and comparative tables between the foundation's practices and the provisions of PSAK 45. Data presentation allowed researchers to see the overall picture and identify relationships between data categories. Conclusions were drawn by interpreting the research findings based on the presented data. Initial conclusions drawn were then verified by returning to the data to ensure their validity. Data validity was maintained through source triangulation and method triangulation. Source triangulation was carried out by checking data obtained from various informants to ensure consistency of information. Information from the foundation's chairman was compared with information from the treasurer and financial staff to obtain a complete and valid picture. Method triangulation was carried out by comparing data from interviews, observations, and documentation. Data obtained from one method was confirmed with another method to increase the credibility of the research results.

Member checking was also conducted by communicating findings to informants for confirmation and clarification. This process ensured that the researcher's interpretations aligned with the informants' intended meaning. The researcher also conducted an audit trail by systematically documenting the entire research process so that it could be traced and verified by others. Documentation included field notes, interview transcripts, collected documents, and analytical notes. A limitation of the study is its focus on only one foundation, making the results infeasible for generalization to all educational foundations in Indonesia. However, in-depth case study research provides a rich understanding of the phenomenon under study and can provide insights for further research. Another limitation is that the study only analyzed financial statements for the last three years, thus preventing the long-term development of accounting practices.

#### **4. Results And Discussion**

##### **Istiqomah Foundation Profile**

The Istiqomah Foundation was established on January 15, 2010, based on Notarial Deed Number 08, with the aim of providing quality Islamic education for the community. The foundation manages three educational units, namely an Integrated Islamic Elementary School with 480 students, an Integrated Islamic Junior High School with 420 students, and an Integrated Islamic Senior High School with 300 students. The total number of students served reaches 1,200 children, supported by 85 educational and educational staff consisting of 62 teachers and 23 administrative and support staff. The foundation's organizational structure consists of 5 advisors, a board consisting of a chairman, secretary, and treasurer, and 3 supervisors. The foundation's advisors are the founders and community leaders who are trusted to oversee the foundation's policy direction. The board is responsible for the implementation of daily operational activities, including financial management. The supervisors are tasked with supervising the performance of the board and ensuring that the foundation operates in accordance with the articles of association and bylaws.

The foundation's funding comes from several sources. First, donations from patrons and regular donors who contribute regularly every month totaling approximately Rp 120 million per year. Second, tuition fees from students' parents are the largest source of income, totaling approximately Rp 3.2 billion per year. Third, government assistance in the form of School Operational Assistance funds amounting to Rp 850 million per year. Fourth, the foundation's business income from renting out the school cafeteria and

cooperative amounts to Rp 180 million per year. The foundation's total income in 2024 reached Rp 4.35 billion. Foundation expenses are allocated to various operational needs. Teacher and employee salaries and allowances absorb approximately Rp 2.8 billion, or 64% of total expenses. Learning operational costs, including the procurement of books, teaching aids, and laboratory materials, amount to Rp 450 million. Building and infrastructure maintenance costs amount to Rp 380 million.

Utilities costs such as electricity, water, and internet amounted to Rp 240 million. Administrative and general costs amounted to Rp 180 million. The remainder was allocated to education quality development programs such as teacher training and student extracurricular activities. The foundation's assets as of December 31, 2024, were recorded at Rp 8.5 billion, consisting of 8,500 square meters of land valued at Rp 4.2 billion, school buildings valued at Rp 3.1 billion, equipment and furniture valued at Rp 680 million, operational vehicles valued at Rp 320 million, and cash and bank balances of Rp 200 million. Most of the assets were grants from the foundation's patrons upon its establishment and development during the operational period. The foundation also has current liabilities in the form of debts to suppliers and student education down payments amounting to Rp 145 million.

### **Istiqomah Foundation Accounting Practice**

The financial transaction recording system at the Istiqomah Foundation still uses a manual method with the aid of Microsoft Excel. The foundation's treasurer records every cash receipt and disbursement transaction in a daily cash book. Recording is done based on transaction evidence including receipts, invoices, notes, and bank deposit slips. At the end of each month, the treasurer summarizes transactions in a monthly cash book, which is then reported to the foundation chairman and the principals of each unit. Based on interviews with the foundation's treasurer, the implemented recording system emphasizes the cash basis aspect, where transactions are recorded when cash is received or disbursed. This system is considered simpler and easier to understand for managers without an accounting background. The treasurer stated that cash-based recording is sufficient to meet internal information needs and reporting to supervisors. However, this system has limitations because it cannot accurately reflect the financial position, especially regarding outstanding receivables and payables.

Financial statements are prepared at the end of each fiscal year, based on the school year, from July to June of the following year. The prepared financial statements consist of a statement of financial position and a statement of activities. The statement of financial position presents information on the foundation's assets, liabilities, and net assets. However, the presentation format does not fully follow the structure stipulated in PSAK 45. Assets are presented with a simple classification between current assets and fixed assets without detailed breakdowns. The classification of net assets in the statement of financial position does not differentiate between permanently restricted, temporarily restricted, and unrestricted net assets as required by PSAK 45. All net assets are presented in a single account without distinction based on the presence or absence of donor restrictions. This is because the management does not understand the concept of net asset restrictions and assumes that all funds received can be used freely for the foundation's operational purposes. In fact, some funds, such as grants for building construction, should be classified as permanently restricted net assets.

The activity report presented information on revenue and expenses for a period. Revenue is grouped by source, including education fees, donor contributions, government assistance, and business results. Expenses are grouped by type of expenditure, such as salaries, operational costs, and maintenance costs. The activity report format is close to the requirements of PSAK 45 but does not yet show changes in each group of net assets. The report only displays a surplus or deficit as the difference between total revenue and total expenses without detailing the impact on changes in the composition of net assets.

The Istiqomah Foundation has not prepared a cash flow report as required by PSAK 45. The foundation's chairman explained that a cash flow report is considered unnecessary because there are already detailed records of cash receipts and disbursements in the cash book. Understanding of the function of the cash flow report in providing information about the entity's ability to generate cash and how cash is used is still limited. However, the cash flow report provides information that differs from the activity report and can help report users understand the foundation's liquidity and financial flexibility.

The notes to the financial statements are still very simple and do not meet the minimum disclosure requirements stipulated in PSAK 45. The notes presented only contain a brief explanation of the accounting policies used without details of material financial statement items. Information regarding the depreciation policy for fixed assets, the measurement basis used, and the assumptions in preparing the financial statements is not adequately explained. Details of fixed assets, liabilities, and changes in net assets are also not disclosed in the notes to the financial statements. Table 1 below presents a comparison between the financial reporting practices carried out by the Istiqomah Foundation and the requirements of PSAK 45.

**Table 1.** Comparison of Istiqomah Foundation's Financial Reporting Practices with PSAK 45.

Financial Statement Components	PSAK 45 Requirements	Istiqomah Foundation Practices	Level of Compliance
Statement of Financial Position	Presenting assets, liabilities, and net assets with the classification of permanently restricted, temporarily restricted, and unrestricted net assets.	Presents assets, liabilities, and net assets without any classification restrictions.	Partially appropriate
Activity Report	Presents changes in net assets based on the presence or absence of donor restrictions.	Presenting income and expenses with surplus/deficit without classification restrictions	Partially appropriate
Cash Flow Statement	Presents cash flows from operating, investing, and financing activities	Not preparing a cash flow statement	It is not in accordance with
Notes to the Financial Statements	Disclose accounting policies, details of material items, and other relevant information.	The notes are very simple and incomplete.	It is not in accordance with

The table above shows that the Istiqomah Foundation's financial reporting practices are still low in accordance with PSAK 45. Of the four required financial statement components, only two have been prepared, albeit with partial compliance. The other two components—the cash flow statement and adequate notes to the financial statements—have not been prepared. This indicates that the foundation has not fully implemented PSAK 45 in its financial reporting.

### Management's Understanding of PSAK 45

Interviews revealed that the Istiqomah Foundation's management's understanding of PSAK 45 remains very limited. The foundation's chairman stated that he had heard about accounting standards for nonprofit organizations but did not fully understand the requirements. The management's focus is more on ensuring that all receipts and expenditures are properly recorded and accounted for. The concepts of accrual-based accounting, net asset classification based on donor restrictions, and comprehensive financial statement components are not yet well understood. The foundation's treasurer,

who is directly responsible for preparing the financial statements, has a bachelor's degree in education without formal training in accounting. His knowledge of bookkeeping and accounting was acquired through self-study and practical experience during his tenure as treasurer. The treasurer acknowledged difficulties in understanding accounting terms and the format of standardized financial statements. Efforts to learn PSAK 45 through reading guidebooks were hampered by the overly technical language and the lack of applicable practical examples.

Foundation administrators and supervisors also have limited understanding of PSAK 45. Most of them are education practitioners and community leaders who do not have accounting or financial backgrounds. In board meetings, financial discussions focus more on budget realization and the availability of funds for school operations. Evaluation of the quality of financial reports from the perspective of compliance with accounting standards is rarely conducted. The board feels that the existing financial reports are sufficient for internal purposes and reporting to the board of directors. The board of directors, as the party who should receive accountability from the board, also does not demand financial reports that comply with PSAK 45. The board of directors places more emphasis on the substance of the report, ensuring that funds are used in accordance with the foundation's objectives and that there are no irregularities. The format and completeness of the financial reports are not a primary concern. At annual meetings, the board of directors is more interested in the achievements of educational programs and the growth of student numbers than in detailed financial report analysis.

This limited understanding is also reflected in transaction recording practices. The concept of accrual-based revenue and expense recognition has not been implemented. All transactions are recorded when cash is transferred, regardless of the period in which the transactions occur. For example, a new student's initial fee received in June for an academic year beginning in July is immediately recognized as revenue in June. However, according to accrual-based accounting principles, the initial fee should be recorded as unearned revenue and only recognized as revenue in the current academic year. The concept of depreciation of fixed assets is also not understood and implemented. The value of fixed assets in the statement of financial position is presented at acquisition cost without deducting accumulated depreciation. This results in the asset values presented not reflecting their actual book value. When questioned about this, the treasurer stated that the buildings and equipment were still in good condition and therefore deemed unnecessary to reduce their value. The understanding that depreciation is a systematic allocation of an asset's value over its useful life and not a reflection of the asset's physical condition has not yet been realized.

### **Obstacles in the Implementation of PSAK 45**

Based on the research results, there are several obstacles faced by the Istiqomah Foundation in implementing PSAK 45. The first obstacle is the limited human resources with competence in the field of non-profit accounting. The treasurer, who is responsible for preparing financial reports, does not have an accounting education background. The foundation also does not have a sufficient budget to recruit professional accountants or financial consultants. The salaries offered are not competitive compared to the business sector, making it difficult to attract qualified personnel. The second obstacle is the lack of an adequate accounting information system. Transaction recording is still done manually using Microsoft Excel without the support of accounting software that suits the characteristics of non-profit entities. This manual system is prone to data input errors and requires a long time to prepare financial reports. Developing or procuring an accounting information system requires a significant investment, which has not been a priority for the foundation due to limited funds.

The third obstacle is the lack of awareness and commitment from foundation leaders regarding the importance of standardized financial reporting. The foundation

chairman and other administrators believe that as long as funds are properly recorded and there are no irregularities, the financial reports are adequate. The benefits of implementing PSAK 45, such as increased credibility and ease of decision-making, are not yet fully understood. As a result, there is no strong push from leaders to improve the financial reporting system. The fourth obstacle is limited access to training and technical assistance. The foundation admitted that it had tried to study PSAK 45 independently but encountered difficulties due to the overly technical language. Non-profit accounting training provided by professional organizations or educational institutions is often located in large cities and requires significant costs. The foundation hopes that there will be mentoring programs from local governments or universities that can help the foundation implement accounting standards at an affordable cost.

The fifth obstacle is the complexity of foundation transactions that manage multiple educational units. Each school unit maintains its own petty cash fund for daily operational needs. The process of consolidating financial reports from various units into the foundation's financial report requires a robust system. Currently, the consolidation process is performed manually by collecting reports from each unit and summing them. This method is inefficient and carries the risk of errors, particularly in eliminating inter-unit transactions. Table 2 below summarizes the main obstacles faced by the Istiqomah Foundation in implementing PSAK 45 and their impact on the quality of financial reporting.

**Table 2.** Barriers to the Implementation of PSAK 45 and Their Impacts.

Types of Obstacles	Description	Impact on Financial Reporting
Human resource limitations	The treasurer has no accounting background, there are no professional accountants	Financial reports do not comply with PSAK 45 format, errors in classification and recognition
Information Systems	Manual recording with Excel, no accounting software	The report preparation process is slow, error-prone, and inefficient.
Leadership Awareness	Limited understanding of the benefits of PSAK 45, low priority	No system improvement initiatives, minimal resource allocation
Training Access	Training is expensive and far away, no mentoring	Managers do not receive knowledge updates, have difficulty understanding standards
Operation Complexity	Multiple school units, manual consolidation	Consolidated reports are inaccurate, the process is time consuming

### Efforts to Improve the Quality of Financial Reporting

Despite facing various obstacles, the Istiqomah Foundation recognizes the importance of improving the quality of financial reporting. Several efforts have been made, although the results have not been optimal. The first effort was to send its treasurer to participate in basic bookkeeping training organized by the Semarang City Education Office in 2023. The training provided a basic understanding of the accounting cycle and the preparation of simple financial statements. However, the training did not specifically address nonprofit accounting in accordance with PSAK 45. The second effort was to coordinate with a local public accounting firm for consultation on the preparation of financial statements. The consultation took place in 2024 in preparation for a financial statement audit requested by a donor agency. The public accountant provided input regarding deficiencies in the existing financial statements and recommended that the foundation begin implementing PSAK 45. However, due to financial constraints, the

foundation was unable to continue with the intensive mentoring services from the public accounting firm.

The third effort is to conduct benchmarking or comparative studies with other educational foundations that have implemented PSAK 45. In March 2024, the foundation's management visited the Al-Azhar Foundation in Jakarta, known for its robust financial reporting system. The visit provided inspiration and a concrete picture of how a large foundation manages its finances professionally. The Istiqomah Foundation then attempted to adopt some of the reporting formats used by the Al-Azhar Foundation, although this was still limited. The fourth effort is a plan to develop a simple accounting information system tailored to the foundation's needs. The foundation has contacted accounting students at a university in Semarang to help design a more structured, spreadsheet-based accounting system. This plan is scheduled to be implemented at the beginning of the 2025 academic year, with the hope of streamlining the process of recording and preparing financial reports.

The fifth effort was to form a small finance team consisting of the foundation treasurer, the treasurers of each school unit, and one teacher with an economics background. This team meets monthly to discuss financial reports and resolve any issues that arise. The formation of this team is expected to improve coordination between units and consistency in the application of accounting policies. While not yet optimal, the team's presence has begun to have a positive impact on communication and financial problem-solving.

### **Analysis of Compliance with PSAK 45**

An analysis of the Istiqomah Foundation's 2024 financial statements revealed several discrepancies with PSAK 45. In the statement of financial position, the foundation had not classified its net assets based on the presence or absence of donor restrictions. A search of funding sources revealed a grant of Rp 2.1 billion for building construction, which should have been classified as a permanently restricted net asset because the grant was provided with the condition that it must be used for infrastructure development and cannot be sold. Furthermore, there was a scholarship program fund for underprivileged students amounting to Rp 85 million, originating from a specific donor with a restriction on use only for scholarships. These funds should have been classified as temporarily restricted net assets because they will be used within a specific period for a predetermined purpose. However, in the prepared statement of financial position, all net assets are presented in one account without distinction. This makes it impossible for report users to determine how much of the net assets are restricted and how much is freely used for operations.

In terms of activity reports, the foundation has presented revenues and expenses but has not grouped them based on their impact on changes in net asset groups. Revenue is presented by source, such as education fees, donations, and government assistance, without indicating whether the revenue increases unrestricted, temporarily restricted, or permanently restricted net assets. Expenses are presented in aggregate without classification by function or program. This is despite PSAK 45 recommending the presentation of expenses based on functional classifications such as education programs, administration, and fundraising. Further analysis of revenue recognition shows that the foundation uses the cash basis of revenue recognition. New student entrance fees received at the end of the academic year for the following academic year are immediately recognized as revenue in the current period. According to the accrual-based accounting principles adopted by PSAK 45, these entrance fees should be recognized as unearned revenue and only recognized as revenue in the relevant academic year. As of December 31, 2024, entrance fees amounting to Rp 65 million had been received for the 2025/2026 academic year but had been recognized as revenue in 2024.

The absence of a cash flow statement represents a significant discrepancy with PSAK 45. The cash flow statement provides information on cash receipts and disbursements classified by operating, investing, and financing activities. This information is useful for assessing an entity's ability to generate cash, meet obligations, and fund its activities. Without a cash flow statement, report users cannot determine where cash came from and what it was used for during the reporting period. This information is highly relevant for assessing the foundation's liquidity and financial flexibility. The foundation's notes to the financial statements contain only a brief explanation of accounting policies without the detailed disclosures required by PSAK 45. Some information that should be disclosed but is not included in the notes to the financial statements includes details of fixed assets and depreciation policies, details of liabilities and their maturities, details of changes in each group of net assets, policies for recognizing donations and grants, transactions with related parties, and the foundation's main programs or activities. Adequate disclosure is necessary for report users to understand the figures presented in the main financial statements.

A positive aspect to note is that the foundation already has a fairly robust documentation system. Every transaction is supported by complete and neatly stored evidence. A transaction authorization process is also in place, requiring the approval of the foundation's chairman for any expenditures exceeding Rp 5 million. This demonstrates sound internal control, although the accounting system still needs improvement. A sound internal control foundation will facilitate the foundation's implementation of PSAK 45, as transaction data is valid and reliable.

### **Recommendations for Improvement**

Based on the research findings, several recommendations can be made to improve the implementation of PSAK 45 at the Istiqomah Foundation. The first recommendation is to provide nonprofit accounting training for treasurers and finance staff. The training should not only provide a conceptual understanding of PSAK 45 but also provide hands-on practice in preparing financial reports in accordance with standards. The foundation can collaborate with universities that offer accounting study programs to provide affordable training. Internships or mentoring programs by accounting students can also be a mutually beneficial alternative, where the foundation receives technical assistance while students gain practical experience.

The second recommendation is to develop an accounting information system that aligns with the characteristics of a nonprofit entity. The system doesn't have to be expensive or complex, but it should accommodate reporting requirements in accordance with PSAK 45. Several cloud-based accounting software programs specifically designed for nonprofit organizations offer relatively affordable subscription fees. A good system will simplify the recording process, reduce errors, and expedite the preparation of financial statements. Investing in an accounting information system will provide long-term benefits for the foundation. The third recommendation is to develop a clear and written accounting policy manual. This manual provides guidance on how transactions should be recorded, recognized, and presented in the financial statements. The accounting policy manual should cover revenue and expense recognition policies, net asset classification, fixed asset depreciation methods, and the financial statement format used. With a clear manual, anyone serving as treasurer will have a common reference point, ensuring consistency in the application of accounting policies.

The fourth recommendation is to conduct regular external audits of the foundation's financial statements. Audits by independent public accountants not only provide assurance of the fairness of financial statements but also provide input for improving accounting systems and internal controls. Audit results can also enhance the foundation's credibility in the eyes of donors and other stakeholders. Audit costs can be budgeted as an investment to improve accountability and transparency in financial

management. The fifth recommendation is to increase awareness and commitment of foundation leaders to the importance of standardized financial reporting. Trustees and administrators need to understand that quality financial reports are not merely an administrative obligation but a tool for better decision-making and for building public trust. Leadership commitment will encourage the allocation of adequate resources for improving the financial reporting system and fostering a culture of accountability within the foundation.

## 5. Conclusion

This study examines the application of PSAK 45 on Financial Reporting of Non-Profit Entities at the Istiqomah Foundation, which operates in the education sector. The results show that the foundation has not fully implemented PSAK 45 in preparing its financial statements. Of the four required financial statement components, the foundation only prepares a statement of financial position and a statement of activities with a partial level of conformity. A cash flow statement has not been prepared and the notes to the existing financial statements are still very simple and do not meet the minimum disclosure requirements. The main discrepancy found is the classification of net assets that does not differentiate between unrestricted, temporarily restricted, and permanently restricted net assets as required by PSAK 45. The foundation presents all net assets in one account without distinction based on donor restrictions. However, based on the tracing of funding sources, there are grant funds for building construction that should be classified as permanently restricted net assets and scholarship program funds that should be classified as temporarily restricted net assets.

Revenue and expense recognition still uses the cash basis, where transactions are recorded when cash is received or disbursed. This is inconsistent with the accrual-based accounting principles adopted by PSAK 45. As a result, revenue and expenses are not reported in the appropriate period, and financial statements do not reflect actual financial performance. The concept of fixed asset depreciation has also not been implemented, so asset values in the statement of financial position do not reflect their actual book value. The main obstacle in implementing PSAK 45 is the limited human resources competent in nonprofit accounting. The foundation's treasurer does not have an accounting education background and has very limited knowledge of PSAK 45. The foundation also does not have an adequate accounting information system, where recording is still done manually using Microsoft Excel. Other obstacles include a lack of leadership awareness of the importance of standardized financial reporting, limited access to training and mentoring, and the operational complexity of the foundation, which manages several educational units.

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