

# Enhancing Financial Reporting and Tax Compliance of BUMDes Through Participatory Action Research: Evidence from Manyar Sidorukun Village

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## ABSTRACT

**Objective:** This study aims to enhance the capacity of Village-Owned Enterprises (BUMDes) managers in preparing financial statements and fulfilling tax obligations. **Method:** This study uses a qualitative research method through a Participatory Action Research (PAR) approach using data collection techniques through observation, interviews and documentation. **Results:** The results indicate improved understanding in transaction recording, financial reporting, and tax compliance. The PAR approach proved effective in encouraging behavioral change through active participation. This study contributes practically to strengthening BUMDes governance and theoretically to the application of PAR in community service research. **Novelty:** This study introduces novelty by integrating financial reporting assistance based on SAK EP and tax compliance using a Participatory Action Research (PAR) approach. Unlike prior studies that are partial and top-down, this research positions BUMDes managers as active participants, resulting in a more participatory, contextual, and sustainable assistance model

## INTRODUCTION

Village-Owned Enterprises (BUMDes) serve as a strategic instrument in promoting rural economic independence and enhancing community welfare through the productive management of local resources. Beyond functioning as business entities, BUMDes also act as key drivers of community-based economic development. However, in practice, BUMDes management still faces significant challenges, particularly in financial governance and tax compliance. Limited accounting literacy among managers has been widely recognized as a major constraint in producing reliable financial statements [1]. This finding is consistent with prior studies indicating that limited accounting capacity among small entities hinders the preparation of high-quality financial reports [2].

In this regard, the implementation of SAK EP is essential to improve the quality of financial reporting for BUMDes, which are categorized as small and medium-sized entities. This standard provides a simplified framework that can be adapted to limited organizational resources. Furthermore, tax compliance represents a key indicator of good governance and sustainability [3]. Highlights that tax compliance among small enterprises is strongly influenced by administrative capacity and taxpayer awareness. Previous studies also emphasize that participatory approaches in community empowerment programs significantly enhance effectiveness by fostering active

engagement and a sense of ownership. Argues that participatory development is fundamental to sustainable community-based initiatives. Moreover, the participatory Action Research (PAR) approach has been shown to effectively promote behavioral change and capacity building [4], [5].

However, studies that integrate PAR in financial reporting assistance alongside tax compliance for BUMDes remain limited. This gap is critical, as integrating these aspects is necessary to establish accountable and sustainable village enterprise governance. Therefore, this study proposes a more comprehensive approach by integrating accounting practices, tax compliance, and participatory engagement within a unified framework. This study aims to: (1) enhance the capacity of BUMDes managers in financial reporting, (2) improve tax compliance, and (3) analyze the effectiveness of the Participatory Action Research (PAR) approach in community service. The study is expected to contribute both practically and theoretically to the development of participatory-based governance models [6].

The selection of BUMDes Manyar Sidorukun as the object of this assistance program was based on several strategic considerations. First, the BUMDes demonstrates significant economic potential through its diverse and active business units, which necessitates a more structured and accountable financial management system. Second, preliminary observations revealed that financial management practices remain relatively basic and have not fully adopted applicable accounting standards, potentially affecting accountability and decision-making processes. Third, the managers' understanding of tax obligations is still limited, leading to suboptimal tax compliance.

Furthermore, BUMDes Manyar Sidorukun exhibits a strong commitment and openness among its managers to improve their managerial and financial capabilities. This is reflected in their active participation and willingness to adopt improved financial recording practices. Such conditions are critical for the successful implementation of the Participatory Action Research (PAR) approach, which emphasizes active participant involvement throughout the process. Therefore, this BUMDes is considered a representative and suitable setting for developing a sustainable and replicable assistance model.

This assistance program was also supported by PUPUK through its Community Development Program (PPM) in the economic sector, initiated by SAKA Indonesia Pangkah Ltd. in 2025. The program aims to enhance rural economic capacity by strengthening local business institutions, including BUMDes. The synergy between the PPM program and the community service activities conducted by University Muhammadiyah Gresik establishes a collaborative approach that not only emphasizes knowledge transfer but also ensures the sustainability of program implementation at the community level.

The collaboration between academia, community development organizations, and industry represents a multi-stakeholder synergy in strengthening BUMDes governance. The support from the PPM program not only expands the scope of activities but also

enhances the quality of intervention by integrating academic approaches with practical community empowerment. Therefore, this assistance program is not merely incidental but forms part of a sustainable community development initiative.

## RESEARCH METHOD

This study employs a Participatory Action Research (PAR) approach, emphasizing active collaboration between researchers and participants in identifying problems, implementing actions, and conducting continuous evaluation [5], [7]. This approach is particularly relevant in community service contexts as it generates practical solutions and fosters behavioral change among business managers. Previous studies have demonstrated that practice-based assistance, such as implementing simple financial recording systems using a cash book, is effective in improving financial control in small enterprises [2]. Furthermore, training and capacity-building programs have been shown to enhance the ability to prepare systematic financial statements [8].

The study was conducted in Manyar Sidorukun Village, involving BUMDes managers, village business unit managers, and village officials. Data were collected through observation, semi-structured interviews, and documentation to obtain a comprehensive understanding of financial management practices and tax compliance levels. Prior research indicates that tax knowledge and taxpayer awareness significantly influence compliance behavior [9], making these aspects central to the assistance process.

Data analysis was conducted using the interactive model of [10], [11], including data reduction, data display, and conclusion drawing. The research procedure followed the PAR cycle of planning, action, observation, and reflection. This approach aligns with previous assistance practices emphasizing continuous training and hands-on mentoring in enhancing managerial capacity, particularly in accounting and taxation [12], [13].

## RESULT AND DISCUSSION

This section presents the research findings through a comprehensive analysis that integrates empirical evidence with relevant theoretical frameworks. The discussion focuses on evaluating the effectiveness of the Participatory Action Research (PAR) approach in enhancing the capacity of BUMDes managers across technical, behavioral, and institutional dimensions. It also highlights the integration of financial reporting based on SAK EP and tax compliance as a unified framework for village enterprise governance. The analysis is structured thematically to identify patterns of change throughout the assistance process and to compare these findings with prior studies, thereby strengthening the study's academic contribution.

### **Technical Capacity Improvement of BUMDes Managers**

The findings indicate that the Participatory Action Research (PAR) approach significantly enhances the technical capacity of BUMDes managers. Participants improved their ability to record transactions, prepare simple income statements, and

understand basic financial structures. Practice-based learning proved more effective than conventional one-way approaches, consistent with [14].

### **Behavioral Transformation and Participant Engagement**

Beyond technical skills, improvements were also observed in behavioral and participatory aspects. The PAR approach actively involved participants in problem identification and solution development, fostering a strong sense of ownership. This supports participatory development theory [4].

This behavioral transformation is further reflected in the increased initiative of participants to independently apply financial management practices following the assistance program. Participants not only demonstrated improved understanding but also exhibited more proactive attitudes, such as maintaining regular financial records, engaging in discussions on financial issues, and collaboratively seeking solutions. This indicates that the PAR approach functions not merely as a knowledge transfer mechanism but also as a means of building social capacity and confidence in decision-making. Therefore, active participant engagement becomes a key factor in achieving sustainable change, as such transformation is driven by internal awareness rather than external intervention alone.

### **Implementation of Accounting Standards in BUMDes**

The implementation of SAK EP demonstrates that accounting standards can be adapted to the context of small village enterprises. Simplified training approaches enhance understanding without overwhelming participants, consistent with [2]. Continuous training further improves reporting capability [8].

Furthermore, the successful implementation of accounting standards in the BUMDes context is not solely determined by the simplicity of training materials but also by their adaptability to local characteristics and the managers' level of financial literacy. The step-by-step assistance approach enables participants to understand the linkage between transaction recording, account classification, and the preparation of complete financial statements. This process helps bridge the gap between theoretical accounting concepts and practical application in the field. Therefore, the adoption of SAK EP functions not merely as an administrative requirement but also as a learning tool that promotes greater accountability and transparency in BUMDes financial management.

### **Improvement in Tax Compliance**

From a taxation perspective, participants showed improved understanding and awareness of tax obligations. This aligns with [9], highlighting the importance of tax knowledge and awareness. Practical mentoring methods, such as simulations, effectively enhanced both technical skills and confidence [12].

The improvement in tax compliance is also reflected in a shift in participants' mindset, where taxation is no longer viewed merely as an administrative obligation but as a fundamental responsibility in operating a legitimate and sustainable business. The assistance provided focused not only on the technical aspects of tax reporting but also on enhancing participants' understanding of the benefits of compliance, such as increased

credibility and access to government support programs. Consequently, the educational and practical approach adopted in this study fosters intrinsic awareness among participants, ensuring that tax compliance is not temporary but becomes embedded as part of good business governance practices.

From a regulatory perspective, BUMDes, as a legal entity, is subject to general taxation rules in Indonesia. Under the Income Tax Law and reinforced by Government Regulation No. 11 of 2021, BUMDes is classified as a corporate taxpayer and is therefore required to obtain a tax identification number (NPWP), maintain proper accounting records, and fulfill obligations related to tax withholding, payment, and reporting in accordance with applicable regulations. In addition, BUMDes may benefit from tax incentives applicable to small enterprises, such as the final income tax rate of 0.5% for entities meeting certain turnover criteria. This regulatory framework underscores the importance of tax assistance programs to ensure that BUMDes managers not only understand their obligations but are also able to implement them correctly and consistently.

To provide a more systematic overview of BUMDes tax obligations, the following table summarizes the types of taxes and responsibilities that must be fulfilled by BUMDes as a legal entity.

**Table 1.** Types of Taxes and Responsibilities BUMDes

No	Type of Tax	Legal Basis	Tax Object	Main Obligation	Remarks
1	Income Tax (PPh)-(Corporate / Final MSME)	Income Tax Law, Gov. Reg. No. 23/2018	Business income	Calculate, pay, and report tax	0.5% final tax for turnover ≤ IDR 4.8 billion
2	PPh 21	Income Tax Law	Salaries/wages	Withhold, pay, and report	Applicable if BUMDes has employees
3	PPh 23	Income Tax Law	Certain services	Withhold and pay tax	Applicable for service transactions
4	Value Added Tax (VAT)	VAT Law	Goods/services supply	Collect, pay, and report	If registered as taxable entrepreneur
5	Local Taxes & Retributions	Law No. 1/2022	Local business activities	Pay local taxes	Depends on business type
6	Annual Tax Return (SPT)	Tax Procedure Law	Overall business activities	Submit annual tax return	Mandatory for legal entities

### **Integration of Accounting and Tax Assistance**

This study demonstrates that integrating accounting and taxation assistance within a PAR framework yields more comprehensive outcomes than fragmented

approaches. This integration strengthens accountability and sustainability in BUMDes governance.

The integration of accounting and tax assistance within the PAR framework also facilitates a more holistic understanding among BUMDes managers, particularly in recognizing the interconnection between financial recording and fiscal obligations [1]. Through this approach, participants not only learn how to prepare financial statements but also understand how these reports serve as the basis for tax calculation and reporting. This synergy reduces the risk of reporting errors and enhances administrative efficiency. Moreover, such integration fosters a more structured governance system, where accounting and taxation functions operate in alignment, thereby strengthening transparency, accountability, and the long-term sustainability of BUMDes operations.

This study contributes conceptually by developing an integrative model that combines accounting assistance based on SAK EP [15] and tax compliance within a Participatory Action Research (PAR) framework. Unlike prior approaches that tend to treat accounting and taxation as separate domains, this study demonstrates that integrating both aspects within a participatory assistance process generates more comprehensive outcomes, including improvements in both technical capacity and behavioral transformation among BUMDes managers.

From a theoretical perspective, this study extends the literature on community-based economic empowerment by emphasizing the importance of a holistic approach that integrates technical (financial reporting), regulatory (tax compliance), and participatory (active engagement) dimensions. The proposed model highlights that the success of interventions is not solely determined by knowledge transfer but also by the active involvement of participants in both learning and implementation processes. Therefore, this study offers a novel conceptual framework positioning the integration of accounting and taxation as a foundational element in strengthening accountable and sustainable governance of village-owned enterprises.

### **Role of Multi-Stakeholder Collaboration**

The success of this program is supported by collaboration among academia, community organizations, and industry (PPM program). This synergy integrates theoretical and practical approaches and enhances sustainability.

This multi-stakeholder collaboration also demonstrates a complementary division of roles among the involved actors. Academia contributes theoretical frameworks and scientific approaches, community organizations such as PUPUK provide technical implementation and field facilitation, while the industry sector, through the PPM program, offers resource support and ensures program sustainability. This synergy creates a more robust and adaptive empowerment ecosystem that responds effectively to local needs. Consequently, this collaborative model not only enhances short-term program effectiveness but also establishes an institutional foundation that enables replication and scalability across other BUMDes contexts.

## Limitations and Implications

This study is limited by its relatively short duration, which may not capture long-term impacts. Future research should adopt a longitudinal approach. Practically, the PAR-based model can be replicated in similar contexts.

In addition to the limitation of duration, this study also encountered challenges related to the varying levels of financial and tax literacy among participants, which may have influenced the pace and depth of understanding during the assistance process. Differences in educational background and managerial experience resulted in non-uniform outcomes across participants. Therefore, the practical implications of this study highlight the importance of designing adaptive and tiered assistance programs that accommodate diverse participant capacities. From a policy perspective, the findings suggest that participatory and collaborative approaches should be more broadly integrated into BUMDes empowerment programs by local governments and supporting institutions to ensure the sustainability and effectiveness of such interventions.



**Figure 1.** Documentation of Training for BUMDes Manyar Sidorukun

## CONCLUSION

**Fundamental Finding :** This study demonstrates that the Participatory Action Research (PAR)-based assistance approach is effective in enhancing the capacity of BUMDes managers, particularly in financial reporting and tax compliance. The key findings indicate that the participatory approach not only improves technical skills in financial recording and reporting in accordance with SAK EP but also promotes behavioral transformation, including increased awareness, active participation, and commitment to accountable business practices. Furthermore, the integration of accounting and tax assistance within a single intervention framework provides more comprehensive outcomes compared to fragmented approaches. **Implication :** this study offers a practical contribution in the form of a replicable assistance model to strengthen BUMDes governance, particularly in enhancing transparency,

accountability, and regulatory compliance. Multi-stakeholder collaboration involving academia, community organizations, and industry is also identified as a critical factor in ensuring program success and sustainability. Theoretically, this study contributes to the literature on community-based economic empowerment by emphasizing the importance of integrating technical, regulatory, and participatory dimensions within a unified framework. **Limitation** : Although the implementation of training. However, this study is limited by its relatively short duration and its inability to capture long-term impacts on financial performance and sustainability. **Future Research** : Therefore, future research is recommended to adopt a longitudinal approach to assess the sustainability of the implemented systems. Additionally, future studies may develop quantitative models to measure improvements in financial performance and tax compliance more rigorously and test the applicability of this model across different BUMDes context.

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