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Business Sustainability and Financial Management Based on the Economic Entity Concept in Farming Enterprises

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Abstract
This study examines the sustainability of farming enterprises and their financial management practices through the lens of the Economic Entity Concept in Rambah Utara Village, Rokan Hulu Regency, Riau Province, Indonesia. Smallholder rice farmers commonly merge personal and business finances, a practice that obscures financial performance and threatens long-term business viability. Using a descriptive qualitative case-study approach, data were collected through in-depth interviews with 20 farmer informants, direct field observation, and documentation, then analyzed following the interactive model of Miles, Huberman, and Saldana — data reduction, data display, and conclusion drawing — assisted by Atlas.ti software. The findings show that most farmers have not applied the Economic Entity Concept optimally: harvest proceeds are generally used interchangeably for household and farming needs without systematic recording, financial planning remains reactive, and financial reporting and accountability are largely informal. Nevertheless, farmers who practiced even rudimentary separation of funds reported greater ease in controlling expenditure, securing capital for the next planting season, and understanding their farm's financial position. Low financial literacy, entrenched habits, limited and fluctuating harvest income, and the absence of mentoring or simple recording tools were identified as the main barriers to adoption. The study concludes that stronger application of the Economic Entity Concept is positively associated with farm business sustainability, particularly in strengthening risk resilience and long-term planning capacity. The findings support the development of simple bookkeeping tools and targeted financial-literacy training for smallholder farmers, and offer implications for village governments, extension agencies, and academics engaged in agricultural accounting and small-enterprise sustainability research.

Introduction

The agricultural sector plays a vital role in Indonesia's rural economy, particularly in villages such as Rambah Utara, Rokan Hulu Regency, Riau Province, where farming — chiefly rice, oil palm, and horticultural crops — remains the primary source of livelihood and contributes substantially to food security, employment, and rural welfare (Statistics Indonesia [BPS], 2023; Ministry of Agriculture of the Republic of Indonesia, 2022). Most residents of Rambah Utara cultivate paddy fields on plots averaging 1–1.7 hectares, yielding roughly 5–8 tons per season. Despite this productive potential, farmers continue to face limited capital, volatile input prices, and — most critically — the near-absence of structured financial record-keeping.

A recurring problem is that farmers rarely separate personal (household) finances from farm business finances. Revenue from harvest sales is typically absorbed directly into daily household needs, leaving farmers unable to determine with certainty whether their farming activity is actually profitable. Business decisions are consequently made on intuition rather than on verifiable financial data. This condition reflects a low level of adoption of the Economic Entity Concept, the accounting principle holding that a business must be treated as an accounting unit

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distinct from its owner so that financial information accurately reflects the entity's true condition (Jasinski et al., 2019; Weygandt, Kimmel, & Kieso, 2019).

Low financial literacy compounds the problem: many farmers have no habit of recording income, expenditure, or sales proceeds. Prior research indicates that sound financial management is positively associated with the sustainability of small enterprises (Lusimbo & Muturi, 2016). Without clear records, farmers struggle to assess production-cost efficiency, plan capital for subsequent planting seasons, or prepare for shocks such as crop failure, extreme weather, or price fluctuation — all of which directly threaten business continuity when they occur without a financial buffer or organized system (Nguyen et al., 2021).

Applying the Economic Entity Concept is therefore particularly relevant for micro and small enterprises such as smallholder farms, which frequently lack a clear boundary between business and personal funds — a condition that impedes performance assessment, disrupts cash-flow regularity, and complicates financial planning (Horne & Wachowicz, 2012; Harahap, 2018; Kieso, Weygandt, & Warfield, 2018). A clear separation of funds would also make it easier for farmers to evaluate their business, access formal financing, and benefit from government programs on agricultural digitalization and financial inclusion, which increasingly require simple bookkeeping and reporting capacity.

Building on this background, the present study analyzes how farmers in Rambah Utara Village apply the Economic Entity Concept in managing their farm finances and how this relates to the sustainability of their farming enterprises. The study is expected to provide an empirical picture of farmers' financial-management practices, inform village-government and extension programs on financial literacy, and contribute to the development of agricultural accounting theory adapted to local rural conditions. Specifically, the study addresses four questions: (1) how is the Economic Entity Concept applied in the financial management of farming enterprises in Rambah Utara Village; (2) to what extent does this application support business sustainability; (3) what factors influence financial management, particularly the separation of business and personal financial entities; and (4) how are financial management based on the Economic Entity Concept and farm business sustainability related.

Literature Review

Business sustainability refers to a firm's capacity to continue operating and developing over the long term, encompassing growth, resource maintenance, and forward planning that jointly determine its resilience (Sami & Nafik, 2014; Caniglia et al., 2021). Key dimensions commonly used to assess business sustainability include the ability to meet obligations, the ability to generate profit, growth or stability of operations, and the ability to manage finances effectively (Hanafi & Halim, 2018; Harahap, 2019). For small and micro enterprises — which form the backbone of Indonesia's economy and have historically shown resilience during economic crises — sustainability depends heavily on the owner's capacity to build competitive advantage and respond to a dynamic market environment (Dalimunthe, 2017).

Financial management concerns how available funds are planned, organized, recorded, and controlled to generate maximum benefit for the enterprise (Harjito, 2011; Kasmir, 2014). It is commonly analyzed through four functions — financial planning, organizing, actuating (implementation), and controlling (Riyanto, 2013; Kasmir, 2019) — and is expected to satisfy principles of accountability, the ability to meet financial obligations, honesty, effectiveness and efficiency, and adequate internal control (Hasrina, 2015). In practice this includes routine administration of receivables, payables, inventory, fixed assets, cash, and payroll, all of which provide the data base needed for sound planning and evaluation (Hartati, 2013).

The Economic Entity Concept is one of the most fundamental assumptions in accounting, holding that a business is a self-standing accounting unit, separate and distinct from its owner or from any other business unit (Baridwan, 2011; Risnaningsih, 2017). This separation provides the basis for accounting systems to generate financial information for accountability and decision-making purposes, and it must be understood by both preparers and users of financial statements so that the strengths and limitations of the resulting information can be properly interpreted

(Harrison & Sayogo, 2014). Building on Weygandt, Kimmel, and Kieso (2019) and Warren, Reeve, and Fess (2018), the Economic Entity Concept can be operationalized through four indicators: (1) separation between personal and business finances, (2) recording of transactions on the basis of the business entity, (3) financial reports that reflect the condition of the business entity, and (4) financial accountability that is distinct between owner and business.

Prior studies on micro and small enterprises support the relevance of these concepts to the present case. Risnaningsih (2017) found that the application of the entity concept among micro, small, and medium enterprises remains partial, largely due to owners' limited accounting knowledge. Ayu, Puspita, and Sinarwati (2025) similarly reported that Economic Entity Concept implementation in micro enterprises in Karangasem is constrained by informal business practices and low record-keeping discipline. Purba, Situmorang, and Simanjuntak (2021) and Purwanto (2021) linked weak financial-management practices among micro and small enterprises to lower business continuity, while Tommy Munaf, Mahfuddin, and Hasanah (2022) found a similar pattern specifically for entity-concept application among small and medium enterprises. These studies collectively suggest that clearer separation of business and personal finances, together with more disciplined financial management, is associated with greater business resilience — a relationship this study examines specifically within the context of smallholder farming, a setting that remains comparatively under-studied in the accounting literature.

Research Methods

This study uses a descriptive qualitative approach with a case-study design, chosen because the objective was to obtain an in-depth, comprehensive understanding of how farmers apply the Economic Entity Concept in financial management and how this relates to business sustainability, drawing on farmers' own processes, experiences, and perspectives (Creswell, 2018). The research was conducted among farming enterprises in Rambah Utara Village, Rambah Samo Sub-district, Rokan Hulu Regency, Riau Province — a predominantly agricultural village where the separation of personal and business finances is still uncommon, making it a relevant setting for the research focus (Sugiyono, 2019). Data collection took place from November 2025 through January 2026, comprising an initial observation phase followed by in-depth interviews and documentation.

Informants were selected using purposive sampling, targeting farmers who best represented the phenomenon under study (Sugiyono, 2019). Selection criteria included: residing and farming in Rambah Utara Village; having operated a farming enterprise for at least five years; being directly involved in financial decision-making for the enterprise; having practiced some form of financial recording, however informal; understanding the distinction between business and personal finances even without having fully applied it; and being willing to be interviewed openly. Twenty farmers meeting these criteria served as informants, ranging in age from 27 to 52 years (the largest group, seven informants, aged 34), with educational attainment ranging from primary school (7 informants) to bachelor's degree (3 informants), and business tenure of 6 to 12 years (a majority in the 10-year category, 9 informants).

Data were collected through in-depth, semi-structured interviews built around the study's variables and indicators, complemented by direct field observation of financial and operational practices and documentation of any available records or supporting materials (Sugiyono, 2019; Moleong, 2021). Both primary data (interviews and observation) and secondary data (relevant literature and prior studies) were used. Data analysis followed the interactive model of Miles, Huberman, and Saldana (2014), comprising data reduction, data display, and conclusion drawing/verification, conducted iteratively throughout the fieldwork period and assisted by Atlas.ti 25 for coding, thematic grouping, and mapping relationships among concepts derived from the interviews, observation, and documentation. The researcher remained the primary instrument of interpretation throughout the analysis.

Results and Discussion

Field observation indicated that farming activity in Rambah Utara Village is managed in a largely traditional manner. Most farmers have not optimally applied the Economic Entity Concept: income from harvest sales is typically used directly for both household and farming needs without a clear boundary between the two. Financial record-keeping is minimal — some farmers rely entirely on memory, while others record only transactions they consider important — leaving production costs, revenue, and profit undocumented in any systematic way. Despite this, business continuity is sustained mainly through farmers' accumulated experience and their ability to allocate part of the harvest toward the next planting cycle.

Table 1. *Informants by age*

Age (years)	Number of informants
27	3
30	2
34	7
37	2
40	3
43	2
52	1
Total	**20**

Interview data on the role of financial management showed a consistent pattern across informants: harvest proceeds are generally taken and used directly for household needs — school fees, daily necessities, and other family expenses — without any dedicated record of business income or expenditure. As one 45-year-old farmer explained, "Once the harvest is in, I take the money and use it for everyday household needs I don't separate farm money from personal money, because to me it's still one and the same." Several informants likewise reported managing funds purely from memory and habit rather than from written records, while nonetheless attempting, in an informal way, to set aside part of the harvest proceeds to fund the next planting season — buying seed and fertilizer first before other spending. This pattern suggests that although the Economic Entity Concept is not applied in a formal accounting sense, farmers do exercise an intuitive form of financial self-discipline aimed at preserving business continuity.

A recurring theme across informants was that farm and household finances are treated as a single, undifferentiated pool because the farm itself is regarded as a means of meeting family needs rather than as a distinct economic entity. Several farmers acknowledged that separating the two would, in principle, be beneficial — "I know it should be separated, but I'm not used to recording and managing it separately" — yet had not adopted the practice consistently.

Regarding the challenges to adoption, informants most frequently cited limited knowledge of bookkeeping, entrenched habits, the small and often unpredictable scale of harvest income, lack of time given competing household and farm labor demands, and the complete absence of training or mentoring on simple farm bookkeeping. As one 55-year-old farmer put it, "We are farmers; we've never been taught about financial record-keeping. What matters is that the field gets planted and the harvest comes in." Others noted that when harvest proceeds are barely sufficient for daily needs, separating funds feels risky rather than beneficial, and that the absence of any visible local example of simple farm bookkeeping makes the practice harder to adopt even for those who recognize its value.

Taken together, these findings show that financial management based on the Economic Entity Concept plays an important, if still under-realized, role in supporting farm business sustainability in Rambah Utara Village. Financial planning remains reactive: when funds run short, farmers tend to delay activities or seek informal additional funding rather than draw on a planned reserve. The near-absence of income-and-expense recording leaves farmers unable to calculate actual profit or loss, undermining the evaluative basis for business decisions. Reporting and control are similarly informal, weakening accountability and the basis for longer-term planning. Consistent with the theoretical expectation that entity separation underpins reliable financial information (Weygandt et al., 2019), farmers who had begun even simple fund-separation practices reported clearer visibility into cost and return, easier capital planning for the next season, and a greater sense of control over their business — mirroring findings from micro-enterprise studies that link Economic Entity Concept adoption to improved cash-flow management and accountability (Ayu et al., 2025; Tommy Munaf et al., 2022).

In terms of sustainability itself, most farmers have been able to keep their enterprises running over the medium term — a majority for around ten years — but this continuity appears to rest more on economic necessity and habitual practice than on deliberate financial planning. Farmers manage price fluctuation, rising production costs, and crop-failure risk mainly by cutting costs or postponing activities rather than by drawing on a financial buffer, since limited financial management leaves little reserve capacity for shocks. Long-term planning — land expansion, production-technology upgrades — is rarely undertaken systematically, indicating that business continuity in this setting remains predominantly short-horizon and season-dependent. This reinforces the broader pattern identified in the literature that weak application of the Economic Entity Concept constrains financial management, which in turn limits farmers' capacity to plan, control, and grow their enterprises, ultimately shaping their resilience to risk and their prospects for long-term sustainability (Purwanto, 2021; Purba et al., 2021).

Implication and Conclusion

This study concludes that the application of the Economic Entity Concept among farming enterprises in Rambah Utara Village remains sub-optimal. Most farmers continue to merge personal and business finances, resulting in unstructured, non-systematic record-keeping that leaves them unable to determine profit, production cost, or long-term viability with any precision. At the same time, the study finds that even partial, informal separation of funds is associated with improved expenditure control, easier capital planning for subsequent planting seasons, and clearer understanding of financial position — indicating that the Economic Entity Concept, where applied consistently, has real potential to strengthen the stability and continuity of farm businesses. Low financial literacy, entrenched habits of pooling farm and household funds, the absence of simple recording tools, and unpredictable harvest income were identified as the principal barriers to more consistent adoption.

These findings carry practical implications for several stakeholders. For farmers, the results support adopting a clearer separation of business and personal funds — for instance through separate cash storage or accounts — together with simple, routine recording of production costs, harvest results, and profit. For village governments and extension agencies, the findings support periodic financial-literacy training centered on Economic Entity Concept–based simple bookkeeping, the provision of farm cashbooks or simple recording applications, and sustained mentoring to help translate training into lasting practice; integrating these efforts into existing agricultural-empowerment or digitalization programs may further strengthen farmers' financial systems. For academics, the study offers an empirical basis for developing agricultural-accounting curricula and community-engagement activities that introduce simple bookkeeping directly to farmers. Future research could extend this work by broadening the informant base or comparing multiple villages, incorporating additional variables such as digital literacy, financial-technology use, or access to financing, and applying quantitative approaches to test the statistical relationship between Economic Entity Concept adoption and farm profitability or sustainability.

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