

CHAPTER I

INTRODUCTION

1.1. Background

A corporation's primary goal is to enhance shareholder wealth. In pursuit of this goal, many corporations engage in multiple lines of business and may expand into foreign markets to capitalize on opportunities for increased profits and cash flows. Segment reporting is a crucial component of financial disclosure, as it furnishes detailed insights into an organization's individual operating segments. By providing comprehensive information regarding each segment, segment reporting facilitates the comprehension of financial performance and risk among investors, analysts, and stakeholders (Cereola & Dynowska, 2022).

There were issues with segmented reports due to diversification and internationalization strategies, which increased complexity and impacted the financial information provided to analysts and investors. As a result, the consolidated financial statement aggregated different sources of risk and income, which need improvement. It is crucial to provide disaggregated information by different segments to better identify where the firm developed its activities. In the second half of the last century, financial analysts and market regulators demanded more disclosure of financial segments and the development of accounting standards due to the increasing difficulty of identifying the source of risk and income for investors (Pardal & Morais, 2011).

Segment reporting is the disaggregation of a reporting entity's reports into segments. The report's users, such as investor analysts, claim that the information of the segment disclosure is valuable in assessing and predicting firm performance (Knutson, 1993). Segmentation reports offer crucial insights that management and stakeholders can leverage for decision-making, depending on the specific type of report generated by the company. Segment financial reporting delivers information on investment opportunities and associated risks, reflecting the profitability of each segment. It also emphasizes assessing growth potential, a key factor that serves as a foundation for evaluating segment performance and the risks of companies. Business segments are collectively analyzed (Yenny, 2016). Segment reporting is crucial and reassuring for users of financial reports when conducting investment assessments and analyses. It allows them to evaluate the risks and



rewards associated with companies with diversified businesses or those that operate on a multinational scale. Additionally, this information aids in predicting future cash flows and anticipating potential profits (Zahra et al., 2022).

The Indonesian Accounting Standards Board governs segment reporting through PSAK 5. This regulation has undergone significant updates, from PSAK 5 (Revised 2000) to PSAK 5 (Revised 2009), prompted by the transition from IAS 14R to IFRS 8. These updates are crucial for companies and their subsidiaries in Indonesia, as they must adjust their accounting policies in alignment with the new *Pernyataan Standar Akuntansi Keuangan* (PSAK) and *Interpretasi Standar Akuntansi Keuangan* (ISAK). Furthermore, PSAK 5 mandates that operating segments be identified based on the company's and its subsidiaries' internal reporting, which is regularly assessed by the Chief Operating Decision Maker (CODM) (Ikatan Akuntansi Indonesia, 2024).

Pegadaian is a pawning company that was established during the time of Dutch colonization in Indonesia. It was initially known as Bank van Leening and operated as a financial organization providing loans through a pawning system. The organization was first established in Batavia on 20 August 1746. Over time, the organization went through several changes in its legal status. Initially, it was known as Perusahaan Negara (P.N.) starting from 1 January 1961, and then it changed to Perusahaan Jawatan (PERJAN). Following this, the organization's status became Perusahaan Umum (PERUM) until 13 December 2011, when Pegadaian's legal entity was transformed into Perusahaan Perseroan (Persero) (Pegadaian, 2024).

According to the company website, Pegadaian's products primarily involve pawning, focusing on gold and gold savings. However, Pegadaian also offers non-gold products, services for pawning stock, vehicles, or houses, and financing. As a result, PT. Pegadaian (Persero)'s products cater to various needs within the Indonesian community, aligning with the company's goal of facilitating more accessible access to loans than traditional banks. The following table is the table of products at PT. Pegadaian (Persero):



Table 1.1 Product of PT. Pegadaian (Persero)

Pinjaman Gadai	Pinjaman Non Gadai	Layanan Jasa	Korporasi
1. Gadai angsuran emas	1. Cicil emas arisan	1. Tabungan eams	1. Pinjaman kredit instansi
2. Gadai emas	2. Cicil emasku	2. Jasa taksiran	2. Simulasi
3. Gadai tabungan emas	3. Pinjaman usaha	3. Jasa sertfikasi	2. Simulasi cicil emas
4. Gadai non emas	4. Pinjaman serbaguna	4. Jasa titipan	
5. Gadai efek	5. Gadai sertifikat	5. Safe deposit box	
6. Gadai kendaraan	6. Gadai emas	6. Jasa pembayaran online	
7. Pembiayaan porsi haji	7. Cicil kendaraan	7. Jasa pengiriman uang	
8. Pembiayaan wisata religi	8. Pinjaman modal produktif	8. Jasa titipan emas fisik	
	9. Pinjaman modal kerja		

Source: <https://www.pegadaian.co.id/>

As of August 2024, PT. Pegadaian (Persero) boasted total assets valued at 83 trillion rupiahs and operated 4,092 branches across Indonesia, organized into seven regional offices. The company served over 24 million customers and disbursed a total credit of 67.6 trillion rupiahs (Pegadaian, 2024).

As a government-owned pawnshop in Indonesia, PT. Pegadaian (Persero) plays a crucial role in ensuring that financial services are accessible to all segments of the population, especially those underserved by traditional financial institutions.

Government's involvement in this sector aims to promote financial stability, consumer protection, and improve access to credit for economically underserved groups; however, government-owned pawnshops' financial stability and performance metrics, such as PT. Pegadaian (Persero) is more



thoroughly analyzed than its private counterparts, leading to a lack of comprehensive understanding of their impact and efficiency (Pegadaian, 2024).

The Regional Office of PT. Pegadaian (Persero) Makassar is one of the most prominent regional offices of PT. Pegadaian (Persero) in Indonesia, particularly noted for its significant business scale. It operates 404 branches throughout the provinces of South Sulawesi, West Sulawesi, Southeast Sulawesi, and Maluku. This extensive business presence ensures substantial support for conducting research and gathering a robust sample size. (Pegadaian, 2024).

The writer intends to research Pegadaian due to the company's diverse business segments and widespread units across South Sulawesi, which can provide a wealth of data for the study. In addition to the quantity of units, Pegadaian's business segments also show significant variation. This is evident from the table above, illustrating that Pegadaian offers a wide range of products, each contributing differently to their overall income. This research can serve as supplementary information for monitoring the company's adherence to PSAK 5 concerning segmented reporting, vital for maintaining transparency and accuracy in financial statements. In the context of PSAK 5 concerning segment operations, the company provides a report intended solely for internal use. This research aims to extend the accessibility of the segment report beyond internal stakeholders, encouraging its utilization by the broader community. The author hopes such transparency will enhance public understanding and engagement with the company's segment reporting practices.

This research aims to investigate "Segmented Financial Report Analysis at the Regional Office of PT. Pegadaian (Persero) Makassar." This study focuses on analyzing segmented financial reports, testing consolidated financial statements, and assessing the profitability of various accounts, while also identifying those that are incurring losses. According to previous research, implementing PSAK 5 in a company's accounting policy will influence the identification of its operating segments by enhancing financial information's transparency, detail, and relevance. This framework offers valuable insights into various business areas, improving

making for management, enabling investors to assess risk and forecast cash flows, and ensuring adherence to regulatory standards.



1.2. Research Question

The research question of this study is as follows.

1. How have the revenue, assets, and profits of each product segment at PT Pegadaian evolved, based on the results of revenue testing, asset testing, and profit testing?
2. Which business activities that generate the most profit or incur expense to PT. Pegadaian based on segmented financial report analysis?

1.3 Research Objective

Based on the problem formulation outlined above, the formulated research objective will consist of the following.

1. Analyse the growth trend of each product segment of PT Pegadaian through revenue testing, asset testing, and profit testing.
2. Determine which of the business activities generate the most profit or incur the most expense in PT. Pegadaian financial statement.

1.4 Research Contribution

1.4.1 Theoretical Contribution

This research provided a segmented financial statement of PT. Pegadaian (Persero) and information about different business activities. The financial segment reporting helped us understand the enterprise business performance due to more detailed information per business segment in the segmented financial information.

1.4.2 Practical Contribution

1. For researcher

This research can provide knowledge and new insight into the pawn shop. Fellow researchers can utilize the result of this research in related studies or the related enterprise.

2. For academics/Readers

This research can enhance the reader's insights into the financial reporting segment and serve as a benchmark for readers conducting research in the same financial organization, especially a pawning organization.



PT. Pegadaian (Persero)

The research will be beneficial to the regional office of PT. Pegadaian (Persero) Makassar. The main objective of the financial segment reporting is to provide a more understandable insight into reading the consolidated financial reporting. With the result of this study, the regional office of PT. Pegadaian (Persero) Makassar can evaluate which of their segment activities are not profitable for the company.

1.5 Writing Systematics

CHAPTER I: INTRODUCTION

This section consists of the background of the problem, problem formulation, problem objective, and research contribution, divided into contributions to the researcher, readers, and the studied enterprise. The last section of this chapter is the writing systematics.

CHAPTER II: LITERATURE REVIEW

The second chapter will explain what theories are used as a foundation to conduct the research and discover the core of the issue proposed for analysis.

CHAPTER III: CONCEPTUAL FRAMEWORK

The third chapter of this research will explain the conceptual framework and the development of hypotheses.

CHAPTER IV: RESEARCH RESULT

The fourth chapter will explain the research result of the thesis and the analysis result that consist of Revenue Testing, Asset Testing, Profit Testing.

CHAPTER V: CONCLUSION

The fifth chapter will explain conclusion of the research result and also there will be suggestion in this chapter and the limitation of this research.



CHAPTER II

LITERATURE REVIEW

2.1 Financial Reporting

The meaning of accounting varies among different groups of people. Some define it as the art of recording. In contrast, others consider it to be the language of business and a means of communication for business people to assess the condition of the business. This definition is taken from Donald Kieso's *Intermediate Accounting: IFRS edition*, which outlines several essential characteristics of financial reporting. These include the identification, measurement, and communication of financial information, the consideration of economic entities, and the involvement of interested parties. The primary objective of financial reporting is to provide relevant financial information to present and potential equity investors, lenders, and other creditors aiding them in making decisions about providing resources to the entity. This information encompasses decisions related to buying, selling, or holding equity and debt instruments. Different parties require this report, and it serves their various needs (Kieso et al., 2020).

The primary objective of general-purpose financial statements is to provide financial reporting information to a broad range of users. This type of financial reporting should be cost-effective as it assists shareholders, creditors, suppliers, employees, and regulators in understanding the company's financial position and performance. In addition to cost efficiency, the general-purpose financial report must be relevant and provide the most helpful information for the users (Kieso et al., 2020).

The primary goal of financial reporting is to identify investors and creditors as critical users of general-purpose financial statements. This focus is crucial because investors and creditors have immediate needs and depend highly on the financial report. They require access to the company's financial information to assess its performance, cash inflows, and the management's capability to safeguard and improve its assets (Kieso et al., 2020).



› concept of an entity perspective is a crucial element to consider within
rching objective of general-purpose financial reporting. It involves viewing
any as separate from its owner (shareholder). Adopting the entity
ve means seeing the company as an asset rather than a specific

obligation to a creditor or shareholder. This perspective allows the shareholder to claim the company's assets separately from its liabilities or equity claims. In the current business environment, it is crucial to maintain consistency in applying the entity perspective, as it reflects the distinct nature of most companies engaged in financial reporting, separate from their investors. Therefore, financial reporting should primarily address the needs of shareholders rather than taking a proprietary perspective, which is not deemed appropriate (Kieso et al., 2020).

The final component of the financial reporting objective is decision usefulness. Investors are interested in financial reporting because it furnishes information that aids decision-making. Several factors pique investors' interest in evaluating a company's ability to generate net cash inflow and the management's capability to safeguard and increase the capital providers' investment. Financial reporting enables investors to assess the magnitude, timing, and uncertainty of potential cash inflows from dividends or interest, as well as the proceeds from the sale, redemption, or maturity of securities or loans. Aligned with the primary objective of accrual-based accounting, it ensures that a company records events that alter the financial statements when they occur, rather than solely when cash is received or paid. Utilising accrual basis accounting to ascertain a company's net income entails recognising revenue when goods are provided or services are rendered (Kieso et al., 2020).

The regulation that governs financial reporting in Indonesia, known as the Statement of Financial Accounting Standards (PSAK), provides a standardized framework for conducting accounting practices. It encompasses all aspects related to accounting and involves a group of individuals with tested accounting skills who are part of the Indonesia Accounting Association (IAI) (Armein & Prihartini, 2021). PSAK 1, concerning the presentation of financial statements, is an accounting standard that outlines the essential components of a financial statement, guidelines for fair presentation, fundamental accounting concepts, disclosure policies, and the structure and content of financial statements. The application of PSAK 1 must align with SAK when preparing and presenting financial statements.

ard, particularly its role in ensuring adherence to Regulatory standards, ost importance and cannot be overlooked (Rahma, 2023).

ancial accounting standards establish the criteria for the recognition, ment, and disclosure of transactions and other events (PSAK, 2017).



These standards are designed with the user in mind, ensuring that financial statements are accurately presented and well-organized, allowing users to efficiently assess and evaluate the information. This clarity facilitates informed decision-making. If a company fails to comply with these financial accounting standards, it may produce financial reports that align more closely with its own interests rather than objective truths. Such non-compliance can hinder users' understanding of the financial reports (Ramanda, 2018).

Financial statements provide valuable information about an entity's financial position and performance, assisting a wide range of users in making informed economic decisions—regardless of their capacity to request specialized financial reports. Users seeking financial statements include stakeholders such as creditors and investors. To achieve the objectives of financial statements, a company must also demonstrate management's accountability for the resources entrusted to it. Financial statements play a critical role for a company, serving internal and external purposes, as they allow for assessing its performance simply by examining these documents (Firmansyah, 2019).

The balance sheet, also known as the statement of financial position, provides a snapshot of a business's assets, liabilities, and equity at a specific date. It offers details about the types and amounts of resources invested in the enterprise, the obligations to creditors, and the net resources' equity. The balance sheet plays a crucial role in assessing risk and forecasting future cash flows, providing essential information in financial reports. This emphasis on risk assessment and cash flow forecasting can make financial statement users feel more secure and confident in their decisions (Kieso et al., 2020).

The income statement is a report that evaluates a company's performance over a defined period. This statement offers valuable data for assessing profitability, investment potential, and creditworthiness for the business and investment communities. Additionally, it provides insights that help forecast the amount, timing, and uncertainty of future cash flows for investors and creditors.

The income statement categorizes amounts into various segments, such as gross sales, income from operations, income taxes, and net income. Moreover, companies must disclose earnings per share information on the face of the income statement (Kieso et al., 2020).



The income statement provides numerous advantages for users of financial statements, enabling them to predict future cash flows in several ways. For example, it enables them to analyse the company's past performance, form a basis for predicting future performance, and assess the risk or uncertainty of achieving future cash flows. The usefulness of the income statement provides valuable insights into the probability of achieving specific levels of cash flows in the future. (Kieso et al., 2020).

The primary objective of the statement of cash flows is to provide pertinent information regarding an enterprise's cash receipts and disbursements over a specific period. The statement's content encompasses the cash effects of operating activities, investing activities, and financing activities, as well as the net increase or decrease in cash during the period. This information is essential for investors, creditors, and other stakeholders to understand the company's utilisation of its most liquid assets. Given that most companies manage their finances and fulfil their tax obligations based on cash transactions, the statement of cash flows is a crucial tool for comprehending a company's financial position. (Kieso et al., 2020).

The statement of shareholder equity is a critical section of the statement of financial position. This section can be challenging to prepare and comprehend due to the complexities of ordinary and preference share agreements, as well as the various restrictions on equity imposed by company laws, liability agreements, and boards of directors. (Kieso et al., 2020).

It is essential to break down the need for a conceptual framework into distinct components. Firstly, standard rules should be based on and connected to an established body of concepts for them to be effective. A well-developed conceptual framework enables the IASB to issue more useful and coherent pronouncements consistently over time. Without the guidance provided by a sound framework, setting standards based on one's conceptual framework can lead to different conclusions on the same or related topics compared to the past. Secondly, by referencing an established framework of fundamental theory, a properly developed

al framework allows the profession to address new and emerging challenges efficiently (Kieso et al., 2020).

primary objective of financial reporting is to establish a solid conceptual framework. This framework encompasses qualitative characteristics, elements of



financial statements, recognition, measurement, and disclosure. Its overarching purpose is to furnish valuable financial information about the entity's resources for equity investors, lenders, and creditors in their decision-making processes. These decisions may involve acquiring, disposing, or holding equity and debt instruments, extending or settling loans, and other types of credit. Such parties require information to evaluate a company's potential for future cash flows or generate returns for current or prospective stakeholders to make sound business decisions (Kieso et al., 2020).

2.2 Financial Information Analysis

Financial analysis provides financial managers and analysts with crucial information for making informed business decisions. Financial statement analysis offers valuable insights by comparing and evaluating different aspects of the balance sheet from the past, present, and future. While individual balance sheet figures may not hold significant analytical importance, comparing them to comparative values enhances their relevance. The analysis report is a helpful tool for interpreting and calculating reports widely utilized by investors, creditors, and enterprise executives (Hasanaj & Kuqi, 2019).

1. Comparative financial statement analysis

To conduct comparative financial statement analysis, one should review consecutive balance sheets, income statements, or statements of cash flows from period to period. This activity typically involves examining changes in individual account balances over a year-to-year or multi-year basis. Two main types of comparative analysis are popular: year-to-year change analysis and index number trend analysis (Subramanyam, 2014).

Year-to-year change analysis, a method that compares statements over relatively short periods, typically two to three years, is a practical and manageable approach to financial analysis. This analysis focuses on the year-to-year changes in individual accounts, making it easier to understand and interpret. Conducting short-term, year-to-year change analysis is more manageable and understandable. It has the advantage of presenting changes in absolute dollar

and percentages, giving you a clear picture of the financial health of the . This practical and straightforward approach will make you feel confident ble in financial analysis (Subramanyam, 2014).



Index number trend analysis involves using index numbers and requires choosing a base period for all items, with a preselected index number usually set to 100. The base period serves as the frame of reference for all comparisons. Choosing a year representing the best business conditions is essential, as harmful amounts cannot be expressed as negative percentages in index number calculations. (Subramanyam, 2014).

2. Common-size financial statement analysis

Common-size financial statement analysis involves expressing individual account totals as percentages within their respective groups. This approach, also known as vertical analysis due to the up-and-down evaluation of accounts in common-size statements, is essential for understanding the internal composition of financial statements. When conducting a common-size balance sheet analysis, it is essential to examine the accounts that make up specific subgroups. (Subramanyam, 2014).

Temporal (time) comparisons of a company's common-size statement are valuable for revealing any proportional changes in accounts within groups of assets, liabilities, expenses, and other categories. Common-size statements are beneficial for inter-company comparisons because the financial statements of different companies are reformatted in a common-size format. Comparing statements in common-size format can highlight differences in account makeup and distribution. (Subramanyam, 2014).

3. Financial ratios

Financial ratios are essential tools for analysing a company's financial performance. They provide financial managers, investors, and creditors with valuable insights into a company's financial condition, enabling them to make well-informed decisions. By comparing specific items in a company's financial statements, financial ratios assess changes in the company's financial condition. (Lubis, 2019).

a. Profitability ratios

Profitability ratios provide insight into a company's efficiency in managing s and achieving profits. *Profitability* is a measure that reflects a company's generate profits during a specific period. A high sales-to-revenue ratio that a company has successfully optimised its profits (Nainggolan & 2019). Profitability can also indicate the size of the business; high



profitability suggests greater sustainability for the business entity (Sanjaya & M. F. R, 2018).

b. Liquidity ratios

The liquidity ratio is a financial parameter to assess a borrower's ability to repay obligations or debts. It compares a company's current assets to its current liabilities. The ratio is used to assess the company's ability to meet its obligations and debts and gauge the extent to which the company can pay its short-term debts that will soon mature (Sari, 2020).

c. Solvency ratios

The solvency ratio is a fundamental tool in financial analysis, providing valuable insights into how a company's assets are financed through debt. It is calculated using the Debt-to-Asset Ratio (DAR), which compares total debt to total assets. By scrutinizing this ratio, analysts can better understand a company's financial well-being and capacity to fulfill long-term obligations. Moreover, the activity ratio evaluates a company's efficiency in utilizing its assets (Sukmadewi, 2021).

The solvency ratio can significantly impact a company's Return On Equity (ROE). As solvency directly influences profitability, an increase in a company's ability to generate profit also signifies an enhanced ability to fulfill long-term debt. This ratio can also be used to assess the extent to which a company's assets are financed with debt. Short-term solvency is typically assessed and compared with the company's current assets, while long-term solvency places greater emphasis on income as a critical factor in the measurement. Assets are used as a benchmark to measure a company's solvency, indicating how the company's assets and equity are utilized to finance loans provided by creditors. Therefore, solvency is crucial for companies to evaluate their ability to secure loans (Kasmir, 2016)

Various solvency ratios exist, including the debt-to-equity Ratio (DER) and the Times Interest-Earned Ratio (TIER). One of the most widely used solvency ratios is the Debt-to-Asset Ratio (DAR), which assesses the proportion of debt to all equity. This ratio determines the amount of funds provided by the borrower

and the company owner, or in other words, the amount of the company's used as collateral for debt (Kasmir, 2016)



2.3 Segmented Financial Reporting

Segment reporting is a powerful tool that provides stakeholders with detailed information about different divisions, enabling more precise analysis. According to PSAK 5 of 2000, segment reporting identifies components of a company responsible for producing distinct products or services, each carrying unique risks and rewards compared to other segments. (Amado et al., 2018). This detailed information is invaluable in decision-making processes, allowing stakeholders to make more informed and strategic choices. The detailed information provided is crucial for informed decision-making processes, enabling stakeholders to make more strategic choices. By presenting segment financial reports that allow stakeholders to view the company from a management perspective, the relevance and advantages of this segment information can be enhanced. This approach aligns the information within the financial statements, thereby improving the overall quality of those statements. (Arifin et al., 2023).

Since the implementation of PSAK 5 (revised 2009), companies and subsidiaries in Indonesia are required to implement changes to their accounting policies, as mandated by PSAK and ISAK, which took effect on January 1, 2011. One form of revision of PSAK 5 (revised 2000) is the operating segment, which is a revision of PSAK 5 (2009). In the 2009 revision, operating segments are required to be identified based on internal reporting on the components of the Company and its subsidiaries, which are evaluated regularly by the Chief Operating Decision Maker (CODM) (Arifin et al., 2023)

The correlation between consolidated financial statements and segment reporting is significant. Consolidated financial statements play a crucial role in enabling investors to assess management's overall effectiveness in utilising company resources. They provide valuable information for calculating overall measures of profitability, liquidity, and efficiency. To aid investors in assessing the performance of various business segments, supplemental footnote disclosures are required (Beams, 2018).

Over time, the significance of segment information has increased, driven by increasing scrutiny and globalisation of operations in many companies. The financial statement is no longer satisfactory for investors and creditors, the primary users of financial statements. Consequently, standard-setters and reporting regulations have been compelled to respond effectively. As a



result, many countries have amended their regulations on the disclosure of segment information by officially established guidelines (Obradović & Karapavlović, 2016).

The disclosure of segments involves a trade-off between its benefits and costs. The benefits include reducing information asymmetry, which affects the company's cost of capital. The primary motivation for segment disclosure stems from considerations in the capital market. There would be no disclosed information presented in the report if there were no disclosure costs. Segment disclosure aims to highlight proprietary costs, which are critical determinants for companies in deciding whether to disclose or not entirely. Companies typically align their reporting segments following their proprietary cost incentives (Aleksanyan & Danbolt, 2015).

The Ikatan Akuntan Indonesia has adopted IFRS 8 by revising PSAK 5, which now includes segment reporting. The updated PSAK 5 is aligned with IFRS 8 and requires the identification of operating segments as the fundamental internal reporting for both the parent company's and its subsidiaries' components. The Chief Operating Decision Maker (CODM) oversees the report's evaluation. As a result of implementing PSAK 5 in Indonesia, the number of manufacturing companies identifying their operating segments has increased by 98 percent. Adopting this standard has also led to an increase in the reported items in the business segment, except for those reported in the geographic segment, which has decreased. Furthermore, certain items such as liability, capital expense, depreciation, amortization, and other non-cash expenses have also increased due to the implementation of PSAK 5 (Ermawati et al., 2017).

As stated in PSAK 5, the segmented report, or currently referred to as the operating segment, comprises some components of the entity.

- a. This pertains to business operations in which activities generate revenue and expenses, including transactions with other parts of the same entity.
- b. Operational decision-makers play a crucial role in regularly assessing their operations to make resource allocation decisions for the segment and evaluate its performance.



Financial statements should provide distinguishable financial information, enabling users to assess the financial impact of the entity's business activities in its economic environment (Ikatan Akuntansi Indonesia, 2024)

A company must conduct financial report testing to assess the progress of its various segments. (Fitriyani, 2022). Identifying these segments is essential as it provides the necessary information to evaluate revenue, assets, profitability, growth, operational variability, and risk. Reporting segments that significantly contribute to the company's performance is vital, while other business segments should also be disclosed. No additional segment testing is required if the total external revenue reported represents 75% or more of the total revenue, indicating that the company's performance is mainly dependent on these segments. Conversely, further segment testing is necessary if the total revenue is less than 75%, suggesting that the company's performance is more diversified. (Meita, 2016) Market segments can be formed in various ways, and preference segments are one such method. (Saparso, 2021).

The purpose of segment reporting is to provide financial statement users with insights into the comparative scale, profit contribution, and growth patterns of different industries and geographical regions. This information is crucial for users to comprehend the company's historical performance, which carries the weight of their decisions, evaluate its risks and rewards more effectively, and make more informed judgments about the company as a whole (Hetri, 2017).

An industry segment refers to a company's division that provides products or services, or a collection of related products or services, primarily to external customers for profit. A reportable industry segment is one for which reporting of financial information is necessary. An industry segment is classified as reportable if it meets the following criteria (Lestyningrum & Panggiarti, 2022).

1. 10% Revenue Test
2. 10% Asset Test
3. 10% Profit Test

Revenue testing, asset testing, and profit testing are categorised under qualitative thresholds. Operating segments are reportable if they meet the materiality thresholds. A segment is deemed material and reportable if at least one of the specified criteria is satisfied. This is regulated in ASC 280-10, which states

public entity shall report separately information about an operating segment if it meets any of the following thresholds.



2.4 Pawning Industry

2.4.1 The History of the Pawning Industry

According to Bos et al (2012), Pawnbroking is one of the oldest methods of lending money, with the origins dating back to early China around 3000 BC. During this time, the pawnshop served as a primary lender to their communities and played a significant role in supporting key historical events. By 600 BC, pawnshops were prevalent in Greece and Rome, providing quick loans to individuals in need. These establishments were often operated by wealthy individuals or organisations.

In the 12 century, pawnshops began to emerge in medieval Europe, particularly in Italy. They were commonly associated with the Catholic Church, which offered low-interest loans to the poor, helping them avoid the loss of their collateral.

As cities grew and industrialization took hold in the 19th century, pawnshops became more formalized. They were recognised as a necessary service for working-class individuals seeking immediate financial assistance. To protect borrowers from exploitation, many governments have begun to regulate pawnshops, leading to the establishment of legal frameworks that govern their operations.

In the 20th century, pawnshops gained popularity in the U.S. during the Great Depression, providing financial relief to those in need. They emerged as an alternative to banks, offering quick loans with less stringent requirements than those typically associated with traditional financial institutions. The industry underwent modernisation during this time, incorporating computerised systems and enhancing customer service practices, while many pawnshops expanded their services to include the outright buying and selling of goods.

In the 21st century, pawnshops continue to thrive as an alternative financial institution, especially during economic downturns. They adapted to changing consumer needs, often incorporating online pawn and resale platforms. The perception of pawnshops has evolved, with many recognising them as legitimate businesses that offer valuable services, including appraisals, reselling, and



2.4.2 Pawning Industry

Pawnbroking is recognised as one of the oldest lending methods throughout history. This practice dates back at least 3,000 years, originating in ancient China. The validity of pledge transactions was acknowledged under Greek and Roman law, with Augustus Caesar establishing a business based on lending against pledges in 31 B.C. However, there were inherent flaws within the pledge law established by the Greeks and Romans. Perspectives on the legality and morality of charging interest on loans secured by pledges varied significantly. In ancient Greece, no laws prohibited the charging of interest, while Roman law explicitly forbade it. (Oeltjen, 1990).

The Old Testament generally prohibits usury, which is defined as the act of charging interest. Despite this prohibition, a contentious passage permits the charging of interest to a stranger but not to a fellow Israelite. This conflict understandably sparked intense debates within the early church, mainly when interest rates could be exceedingly high. Similarly, the New Testament reflects the same challenges regarding usury as the Old Testament. During the New Testament era, the church reinforced a ban on usury, as articulated by clerics, thus codifying the prevailing anti-interest sentiment. The church moved away from the Old Testament rules, which permitted interest to be charged only to outsiders. (Oeltjen, 1990).

China has a rich history of pawnbroking that dates back to ancient times. However, following the founding of the People's Republic, pawnbroking was deemed a form of usury and subsequently banned for over three decades. With the onset of economic reform and opening up, it became evident that the underdeveloped financial environment was unable to meet the financing needs of small and medium-sized enterprises (SMEs) in China. This situation led to the revival of the pawnbroking industry in 1987 (Zhou et al., 2020).

Pawnbroking is characterised by its small scale, easy accessibility, short-term nature, and security, making it a valuable component of the formal financial sector. In 2007, the industry faced significant challenges, but it began to recover



9. Despite the overall growth in the number of newly opened pawnshops this period, there was a notable decline in business size in 2008 and for instance, in Hangzhou, the capital of Zhejiang province, 21 out of 47 established pawnshops in 2008 reported losses. The Hangzhou City Trade

Bureau noted that nearly 90% of the pawnshops in the city experienced a significant drop in profitability during 2008-2009, following a period of rapid expansion prior to the global financial crisis. Similar difficulties were reported by pawnshops in other provinces across China (Zhou et al., 2020).

In the Philippines, pawning has emerged as an alternative source of credit. It is a valuable option for addressing short-term financial needs, especially for unbanked individuals and low to middle-income households that find traditional banking institutions inaccessible. The popularity of pawning among these demographics stems from its simplicity and ease of operation compared to bank loans, making it particularly appealing to lower and middle-income workers (Miller, 2010). Many Filipinos view pawning as a more convenient means of obtaining funds than the lengthy bank loan procedures (Borres, 2020).

According to Direktorat Jenderal Kebudayaan (2024), the history of pawnshops in Indonesia dates back to the Dutch East Indies era during the VOC (Vereenigde Oost-Indie Compagnie) government, with the establishment of the Bank van Leening. This financial institution provided loans using a pawn system. This institution was first established in Batavia on August 29, 1746.

The majority of Bank van Leening's customers were Dutch, with a small number of Chinese, Arab, and Javanese individuals also represented. Each month, the number of customers grew, resulting in increased profits. Recognising the profitability of Bank van Leening, there was a desire for the VOC to fully control the bank. In 1794, a decision was made to dissolve Bank van Leening. In its place, a new Bank van Leening was established, tasked solely with providing credit, with all capital, management, and staff coming from the VOC. The Bank van Leening continued to operate and monopolise lending until the dissolution of the VOC on December 31, 1799. However, the fall of the VOC did not affect Bank van Leening, which was subsequently taken over by the Dutch Colonial Government, which issued strict regulations regarding the items that could be pawned, namely: gold, silver, jewels, textiles, and a few household items that could be adequately stored for approximately 13.5 months.



When the British took control of Indonesia from the Dutch (1811-1816), the government-owned Bank van Leening was dissolved, and the public was allowed to start pawnshop businesses as long as they obtained a license from the local government ("licentie stelsel"). However, this method led to issues with license

holders practising usury, which was viewed unfavorably by the ruling British government. Therefore, the “licentie stelsel” method was replaced with the “pacht stelsel,” which allowed pawnshops to be established by those who could pay high taxes to the local government.

When the Dutch regained power, the pacht stelsel was maintained, leading to similar issues. License holders often commit abuses in their business operations. Subsequently, the Dutch East Indies government implemented what was known as the “cultuur stelsel,” suggesting that the government should manage pawnshop activities to provide greater protection and benefits to the community. Based on this research, the Dutch East Indies government issued Staatsblad No. 131 on March 12, 1901, regulating that pawnshop operations would be a government monopoly. On April 1, 1901, the first state pawnshop was established in Sukabumi, West Java. Subsequently, every April 1 is celebrated as the anniversary of the establishment of the pawnshop.

During the Japanese occupation, the headquarters of the Pawnshop Office, located at Jalan Kramat Raya 162, was converted into a prisoner-of-war camp, and the headquarters was subsequently relocated to Jalan Kramat Raya 132. There were a few changes during the Japanese administration, both in terms of policies and the organisational structure of the pawnshop. The pawnshop was referred to in Japanese as *Sitji Eigeikyuku*, with the leadership held by a Japanese individual named Ohno-San and his native representative, M. Saubari.

In the early days of the Republic of Indonesia, the Pawnshop Office was temporarily moved to Karang Anyar (Kebumen) due to escalating war conditions. The second military aggression by the Dutch forced the Pawnshop Office to be relocated again to Magelang. After the independence war, the Pawnshop Office returned to Jakarta and was once again managed by the Government of the Republic of Indonesia. During this period, the pawnshop underwent several status changes: it became a State-Owned Enterprise (PN) on January 1, 1961, then according to Government Regulation No. 7/1969, it transformed into a Public Enterprise (PERJAN), and later, based on Government Regulation No. 10/1990



with Government Regulation No. 103/2000), it became a Public Enterprise (PERUM). In 2011, based on Government Regulation No. 51 of December 13, 2011, the legal entity of the pawnshop changed to a Limited Liability Company (Persero). Then, the legal entity changed from "PERSERO" to

"PERSEROAN TERBATAS" on September 23, 2021, in accordance with Government Regulation (PP) No. 73 of 2021.

2.4.3 Benefit of Pawning Compared to Bank

Pawnshops and banks serve as financial institutions, but they operate in distinct ways and offer different benefits. According to Bouman and Houtman (1998), the key benefits of pawnshops compared to banks are as follows.

1. Quick Access to Cash
 - 1.1 Pawnshops: Provide immediate cash in exchange for collateral (items of value) without the need for lengthy approval processes.
 - 1.2 Banks: Typically require time for loan processing, credit checks, and documentation, which can delay access to funds.
2. Less Stringent Requirements
 - 2.1 Pawnshops: Generally have fewer requirements for obtaining loans. There is no need for a credit score or income verification; the value of the collateral is the main criterion.
 - 2.2 Banks: Require credit history, proof of income, and may have strict eligibility criteria, making it difficult for some individuals to secure loans.
3. No Impact on Credit Score
 - 3.1 Pawnshops: If a borrower fails to repay a pawn loan, they lose the pawned item, and there is no impact on their credit score.
 - 3.2 Banks: Failing to repay a bank loan can negatively affect an individual's credit rating, making it harder to obtain credit in the future.
4. Privacy
 - 4.1 Pawnshops: Transactions are often more private, as they do not typically report to credit bureaus. Customers can maintain the confidentiality of their financial activities.
 - 4.2 Banks: Banks often report loan activity to credit bureaus and financial institutions, which can affect the borrower's financial reputation.
5. No Long-Term Commitment
 - 5.1 Pawnshops: Loans are usually short-term, and customers can retrieve their items upon repayment. There is no long-term commitment or contract involved.



- 5.2 Banks: Bank loans often involve long repayment terms and commitments, which may not suit individuals looking for temporary financial solutions.
- 6. Flexible Loan Amounts
 - 6.1 Pawnshops: Loan amounts are determined by the value of the pawned items, allowing for flexibility depending on what a customer can provide.
 - 6.2 Banks: Loan amounts are typically predetermined based on creditworthiness and financial stability, limiting options for those who need smaller amounts.
- 7. Accessibility
 - 7.1 Pawnshops: Often found in local neighbourhoods, making them more accessible to people who may not have nearby banking facilities.
 - 7.2 Banks: While banks are widespread, they may not be as easily accessible in low-income or rural areas.
- 8. Variety of Services
 - 8.1 Pawnshops: Besides loans, many pawnshops offer services such as buying and selling goods, which can benefit customers looking to sell items quickly.
 - 8.2 Banks: Primarily focus on savings and loans, often lacking the immediate buying and selling options that pawnshops provide.

2.5 Research Framework

The theoretical framework reflects the researcher's beliefs regarding the relationships between variables or concepts and explains how they are interconnected. By elaborating on the research framework, the researcher can develop a conceptual model that offers a descriptive representation of the theory. Researchers prepare the results of the conceptual framework in line with the variables under investigation of a relevant financial statement. This preparation is intended to support the presentation of the research problem that is currently under examination. The researcher prepares a conclusion through the conceptual framework in line with the

In this conceptual framework. The researcher creates a sketch illustrating the processes and components in segment reporting and concludes that all Pegadaian are generating profit efficiently from year to year. Hence, the researcher a model through the conceptual framework of this research. The research re both dependent and independent variables. The dependent variable is



the consolidated PT report. Pegadaian (Persero) Regional Office Makassar, with the independent variable being the segmented account of the selected accounts from the same report, explicitly focusing on the product segment. The researcher will select three products with the highest income in this segment.





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