

The Influence of Accounting Understanding and Characteristics on the Quality of Financial Statements of MSMEs Fostered by Bank Indonesia

Siti Nurdela Helingo¹, Harun Blongkod², Ayu Rakhma Wuryandini³

^{1,2,3} Universitas Negeri Gorontalo, Indonesia

Email: delahelingo@gmail.com, blongkod@ung.ac.id, ayurakhma@ung.ac.id

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✉ Corresponding Author: Siti Nurdela Helingo

E-mail: delahelingo@gmail.com

Abstract

The purpose of this study is to gather empirical data regarding the impact of business attributes and accounting knowledge on the caliber of financial reports produced by MSME's. Quantitative techniques are used in this study model or design. 68 MSMEs registered with the Bank Indonesia Gorontalo Branch made up the population of this study, and 68 MSME respondents made up the sample. In this study, questionnaires and observation were employed as data gathering methods, while PLS-SEM analysis was employed as a data analysis method. The study's findings demonstrate that the quality of financial reports (Y) is positively impacted by both business characteristics (X2) and accounting understanding (X1). Amounting to 76.5%, this indicates that the variables Accounting Understanding (X1) and Business Characteristics (X2) can account for the Quality of Financial Reports (Y). In the meantime, other variables not covered in this study can account for the remaining 23.5%.

Keywords: Accounting Understanding, Business Characteristics, Financial Report Quality, MSMEs

1. Introduction

MSMEs collectively contribute significantly to economic growth, job creation, and community empowerment. In Indonesia, around 99% of the total number of companies are MSMEs, which make an important contribution to GDP and national economic balance. However, MSMEs often face challenges such as limited access to capital, resources, and a lack of understanding in terms of financial management and accounting. Therefore, understanding the factors that affect the quality of MSME financial statements such as accounting understanding and business characteristics is crucial in an effort to support the growth and sustainability of MSMEs and increase their contribution to the economy as a whole.

MSMEs themselves are often said to be the savior of the national economy, not without reason, this is because of such rapid growth and can provide jobs for the community, in accordance with data published by the Gorontalo City Cooperatives and SMEs Office in 2022, showing that the growth of MSMEs every year has increased, namely in 2018 the total number of MSMEs was 11,640 businesses until in 2022 it amounted to 14,697.

Although MSMEs from year to year have increased, these MSMEs are not spared from problems located in terms of recording transactions, the Company has not implemented a quality financial reporting system so that business development has stopped due to unclear and unsystematic management of financial statements. Related to existing problems, another problem that makes MSMEs not live long is the difficulty of developing the business, this is due to the lack of capital owned or the conditions for applying for loans to creditors have not been met (Cahyani et al., 2020). However, another obstacle faced is the problem of financial management.

Financial statements are a must for any business in order to provide information about the company's cash flow, performance, and financial position. This information is helpful for parties utilizing the financial statements to decide how best to allocate the company's resources and holds management accountable. Nonetheless, financial accounting practices are still incredibly rare among MSMEs. Bookkeeping for SMEs is still done in an easy way. This results in the problem of difficulty for MSMEs to access loans through banks, according to (Tarmizi 2019) said that banks do not see any difference between large businesses and MSMEs.



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Financial statements are required for every business because they provide information about the company's performance, cash flow, and financial position. This information is helpful for parties utilizing the financial statements to make decisions about how best to use their resources and holds management accountable for how best to use them. However, the number of MSMEs utilizing financial accounting is still quite low. For MSME's, bookkeeping is still done in a disorganized and simple way. This results in the problem of difficulties for MSMEs to access loans through banks, according to (Tarmizi 2019) said that the bank does not see any difference between large businesses and MSMEs. (Mulyani, 2019) argues that the weaknesses of MSMEs in the preparation of financial statements are caused by low education and lack of understanding of Financial Accounting Standards (SAK), as well as low financial report preparation caused by the absence of regulations that require the preparation of financial statements for MSMEs. An understanding of accounting is useful for knowing the procedures that have been established to make financial statements, Financial statements made based on this understanding of accounting will be much higher quality so that they can be used in making decisions (Poetri, 2022). On the other hand, understanding related to accounting needs to be in accordance with the business characteristics of an MSME. The characteristics of the business in question are the length and size of the business.

The results of observations on one of Bank Indonesia's fostered MSMEs in Gorontalo Province are Kurnia Berkah MSMEs. In this observation, the researcher found that the characteristics of the business, which include the length of operation of the business and the size of the business, cannot provide a guarantee that MSMEs can prepare quality financial statements, for that accounting understanding can play a role in it. Understanding accounting in business actors plays a very important role in making it easier for business owners to carry out recording techniques, while for the length and size of the business operation, it cannot provide a guarantee that the business has done their financial records properly and with quality so that it is difficult for business actors to develop their business. This is a phenomenon that gives an idea that businesses that have been running for a long time have not been able to make their financial statements properly if there is no one in it who understands accounting.

This is different from previous research conducted by (Afifah arina nur, 2022), and (Fabillah I.H, 2019). Using the variable "influence on the quality of financial statements", there was a difference of opinion from the results shown on the variable of accounting understanding on the quality of financial statements and the variable of business characteristics on the quality of financial statements. Therefore, this study aims to further expand the scope of its research on this phenomenon in the research area for MSMEs that have been directly fostered by Bank Indonesia.

2. Method, Data, and Analysis

The model or design of this research uses a quantitative method, where this research is in the form of numbers to test a hypothesis using statistical calculations (Prof.Dr.Sugiyono, 2013). In this study, the independent variable (X) and the bound variable (Y) where the independent variable consists of two, namely Accounting Understanding and Business Characteristics which include the length and size of the business, while the bound variable is the Quality of Financial Statements. The population in this study was taken from MSMEs registered as fostered by Bank Indonesia Gorontalo Branch as many as 68 businesses, while the sampling technique in this study used Saturated Sampling which is a sample determination if all members of the population are used as a research sample. So that the sample in this study amounted to 68 MSME respondents assisted by Bank Indonesia Gorontalo Branch. The data collection techniques in this study are observation and questionnaire while the data analysis technique used is PLS-SEM analysis consisting of two submodels: the measurement technique is also called the outer model, and the structural model is also called the inner model.

3. Results

Result

Measurement Model Fit Test (Outer Model)

1. Convergent Validity

Tabel 1. AVE value Indicator

Variable	Value AVE	R kritis	Kriteria (AVE >0,5)
Understanding Accounting	0,634	0,5	Valid
Business Characteristics	0,516	0,5	Valid
Quality of Financial Reports	0,603	0,5	Valid

Source : Data processed by SmartPLS 4

Based on Table 1. It is evident that the mean variance value of Extract serves as the foundation for the convergence validity outcomes. All latent variables have AVE values greater than 0.5, according to the results. This demonstrates that, when examined from the values taken

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out of the mean variance, the indicators that compose latent constructs have strong convergent validity.

2. Validity of Discrimination

Tabel 2.1 Cross Loading Value

Indicator	Business Characteristics (X2)	Quality of Financial Reports (Y)	Understanding Accounting (X1)
X1.1	0,577	0,669	0,806
X1.2	0,608	0,678	0,805
X1.3	0,652	0,670	0,833
X1.4	0,627	0,659	0,820
X1.5	0,573	0,648	0,783
X1.6	0,556	0,691	0,821
X1.7	0,572	0,666	0,835
X1.8	0,583	0,617	0,798
X1.9	0,630	0,627	0,793
X1.10	0,582	0,589	0,763
X1.11	0,602	0,567	0,729
X1.12	0,583	0,589	0,762
X2.1	0,577	0,390	0,448
X2.2	0,561	0,325	0,376
X2.3	0,739	0,519	0,493
X2.4	0,759	0,654	0,547
X2.5	0,716	0,603	0,550
X2.6	0,561	0,455	0,368
X2.7	0,683	0,520	0,499
X2.8	0,726	0,599	0,472
X2.9	0,759	0,648	0,567
X2.10	0,714	0,648	0,528
X2.11	0,787	0,717	0,626
X2.12	0,787	0,588	0,584
X2.13	0,748	0,624	0,563
X2.14	0,789	0,752	0,650
X2.15	0,798	0,654	0,635
Y.1	0,692	0,845	0,687
Y.2	0,633	0,813	0,725
Y.3	0,650	0,767	0,633
Y.4	0,686	0,799	0,604
Y.5	0,413	0,577	0,314
Y.6	0,708	0,843	0,692
Y.7	0,665	0,737	0,572
Y.8	0,625	0,796	0,651
Y.9	0,628	0,759	0,622
Y.10	0,602	0,724	0,579
Y.11	0,662	0,816	0,680
Y.12	0,693	0,817	0,642

Source : Data processed by SmartPLS 4

Based on Table 2. When compared to other constructs, it is evident that all indicators have a strong link with the construct. Consequently, the study model's discriminating validity regarding the validity of cross-loading discriminatory.

3. Reliability

Tabel 3. Cronbach's Alpha and Composite Reliability

Variabel	Cronbach's Alpha	Composite Reliability	Keterangan
Understanding Accounting	0,947	0,949	Reliabel
Business Characteristics	0,932	0,940	Reliabel
Quality of Financial	0,939	0,944	Reliabel

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Reports			
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Source : Data processed by SmartPLS 4

From Table 3. As can be observed, there is a latent construct that has strong reliability as shown by a Cronbach's alpha value greater than 0.7. Furthermore, the dependability value of all latent constructs taken together is higher than 0.70. The obtained Composite Reliability and Cronbach's alpha values demonstrate the model's good reliability

Structural Model Fit Test (Inner Model)

1. R-Square

Tabel 4. Nilai R-Square

Variable	R Square	Strong Relationships
Quality of Financial Reports	0,765	Kuat

Strong Relationships

From the results of Table 4. demonstrates that the Financial Statement Quality variable (Y) has an R-Square value of 0.765, indicating that the Quality of Financial Statements (Y) is influenced by Accounting Understanding (X1) and Business Characteristics (X2). The remaining 23.5% can be accounted for by factors not included in the study.

2. F-Square

Tabel 5. F-Square

Variabel	Effect Size	Rating
Kualitas laporan keuangan (Y)		
Understanding Accounting (X1)	0,341	Menengah
Business Characteristics (X2)	0,498	Tinggi

Source : Data processed by SmartPLS 4

The aforementioned table illustrates how the variables of business characteristics (X2) and accounting understanding (X1), with respect to medium and large categories, might have an impact on the variable Quality of financial statements (Y).

Uji Hipotesis

Tabel 6. Value T-tabel

t-tabel	One tailed	Two tailed
	1..64	1.96

Source : Data processed by SmartPLS 4

1. If the t-statistic value > 1.96 (used for direct influence), then H0 is rejected and H1 is accepted.
2. If the t-statistic value < 1.96 (used for direct influence), then H0 is accepted and H1 is rejected.

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Tabel 7. Koefisien Jalur dan t-hitung

	Original Sample (O)	t- Statistik	p- value	Conclusion
Accounting Understanding of the Quality of Financial Statements	0,424	2,202	0,036	Accepted H _a .1

Source : Data processed by SmartPLS 4

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In table 7. The Original Sample (O) value of 0.424 indicates that there is a positive, unidirectional link between the quality of financial statements and accounting knowledge. This suggests that as accounting knowledge advances, financial statement quality will increase proportionately. A t-statistical value of 2.093—more than the t-table, or 2>093.1.96—indicates that accounting comprehension has a significant impact on the quality of financial statements. Furthermore, Ha.1 is approved since the p value of 0.036 is greater than the 5% alpha (0.05), suggesting that a better understanding of accounting enhances the quality of financial statements.

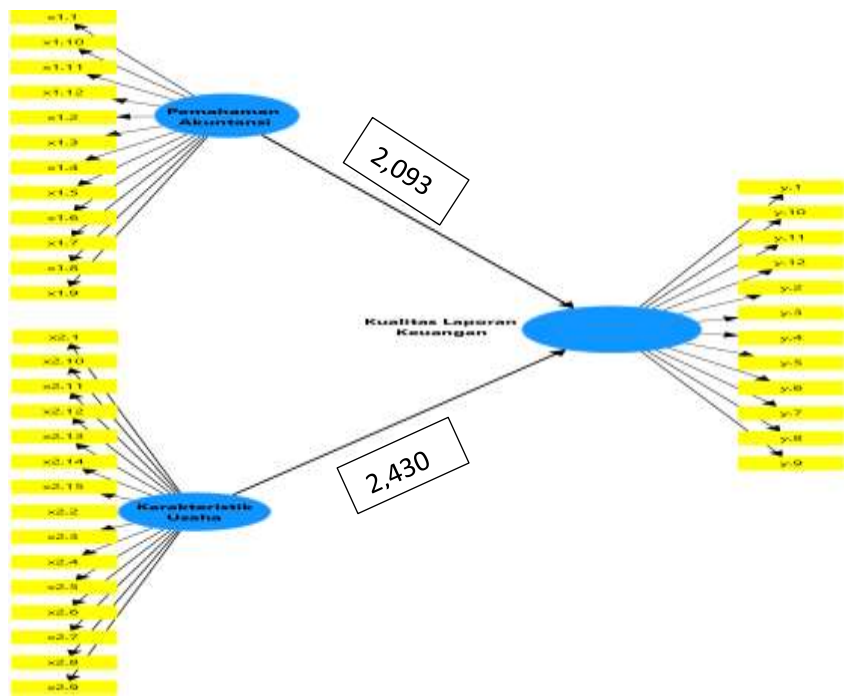


Figure 1. Relationship Between Variable

The Influence of Business Characteristics on the Quality of Financial Statements

Table 8. Path Coefficients and t-counts

	Original Sample (O)	t- Statistik	p- value	Conclusion
Business Characteristics on the Quality of Financial Statements	0,512	2,430	0,015	Accepted H _{a.1}

Source : Data processed by SmartPLS 4

In table 8. The Original Sample (O) score of 0.512, as can be seen, indicates that business characteristics and the caliber of financial statements have a positive or unidirectional association. This suggests that the expansion of company attributes will directly correlate with an increase in the quality of financial statements. The quality of financial statements is significantly influenced by business characteristics, as demonstrated by a t-statistical value of 2.430 > 1.96, which is higher than the t-table. Additionally, Ha.1 is accepted because p = 0.015 is greater than alpha = 5% (0.05), demonstrating a favorable correlation between business attributes and the caliber of financial statements.

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Tabel 9. Nilai R-Square

Variable	R Square	Strong Relationships
Quality of Financial Reports	0,765	Strong

Sumber : Data diolah SmartPLS 4

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The data indicates that the Financial Statement Quality variable (Y) has an R-Square value of 0.765. This suggests that the Quality of Financial Statements (Y) is influenced by Accounting Understanding (X1) and Business Characteristics (X2). The remaining 23.5% can be accounted for by factors not included in the study.

4. Discussion

Accounting Understanding the Quality of Financial Statements

The findings of this study demonstrate that accounting knowledge has a favorable impact on the caliber of financial statements, as supported by the results of hypothesis testing. This supports the study's first hypothesis, which states that accounting knowledge influences the caliber of financial statements. As a result, hypothesis (Ha1) is accepted, and it can be said that the higher a business actor's accounting knowledge, the higher the caliber of financial statements.

A solid grasp of accounting is essential to the caliber of financial statements produced by MSME (Micro, Small, and Medium-Sized Enterprises). MSME actors are able to create accurate, transparent, and trustworthy financial statements if they possess a thorough understanding of accounting concepts and standards. Reputable financial statements are more credible in the perspective of creditors, investors, and other associated parties since they accurately depict the financial situation and aid in decision-making.

This is consistent with the Decision-Usefulness Theory, which outlines the standards for the caliber of accounting data needed to support the decisions that users of accounting data must make. In order to ensure that the accounting information meets the needs of the decision-makers who will use it, the presenter of the information must take certain components into consideration. The use-decision theory's assumption states that accounting's role is to give decision-makers financial data about the company.

The results of this study are in line with research (Lado & Paramitalaksmi, 2023) which says that accounting understanding has a significant influence on the quality of financial statements, people who understand accounting are people who understand and are good at how the accounting process starts from the beginning until it becomes a financial report based on established principles. Understand from recording proof of transactions to the stage of filing financial statements, in addition to understanding various types of accounts that affect each other in a transaction. According to (Santiago & Estiningrum, 2021) an adequate understanding of the purpose of the business is needed if a business wants to move forward. One of them is an understanding of the importance of accounting and financial statements. Then this study is contrary to research (Malindar et al., 2023) which states that accounting understanding has no effect on the quality of EMKM's financial statements. This shows that the perception of MSME actors about knowledge of MSME SAK does not need to stand out as a business accountability tool.

Business Characteristics on the Quality of Financial Reports

This study demonstrates that company characteristics have a favorable and significant impact on the quality of financial statements of MSMEs supported by the Bank Indonesia Gorontalo branch, as indicated by the hypothesis test findings. Consequently, the study's second hypothesis (Ha2) was deemed valid, leading to the conclusion that the quality of financial statements produced by MSMEs supported by the Bank Indonesia Gorontalo branch is significantly influenced by their company characteristics.

Businesses that have been established for a longer period tend to have better access to financial resources compared to businesses that have just been established. This is due to several factors. First, more mature businesses have usually built a reputation and credibility in the eyes of financial institutions and investors, making it easier to get loans or investments. Second, businesses that have been running for longer generally have more complete and stable financial records, which can be used as a basis for evaluating their performance and financial potential.

According to the Decision-Usefulness Theory, accounting objectives include giving financial data about an organization so that decisions can be made regarding how important it is to disclose accounting data that characterizes financial performance through financial reporting. The longer a firm is in operation, the better the recording process will be and the more it will grow in order to strengthen the bonds between business players and further their own ventures.

This research is in line with the results of research (Erawati & Setyaningrum, 2021) and (Puspartini & Sulindawati, 2024) which said that business characteristics can affect the quality of financial statements. The length of time MSME actors are engaged in business can affect their perception of financial statements. The low age of the business makes a lack of experience in managing the business so that it can affect the quality of the financial statements. Then the results of this study are contrary to the results of the study (Poetri, 2022) which says that characteristics cannot affect the quality of financial statements. Because the size of MSMEs in this study is mostly micro and small, so to use the information in the financial statements is still small.

Understanding Accounting and Business Characteristics on the Quality of Financial Statements, Based on the results of the study, it can be concluded that the understanding of accounting and Business Characteristics has a positive and significant effect on the Quality of Financial Statements of MSMEs fostered by Bank Indonesia Gorontalo branch. Thus, the 3rd hypothesis (Ha3) in this study is declared accepted, and it can be concluded that Accounting

Understanding and business characteristics have an influence on the quality of financial statements of MSMEs fostered by Bank Indonesia Gorontalo branch.

A comparison of financial statements can reveal areas that have growth potential. For example, analysis of financial statements can show the most profitable products or services, growing markets, or customer segments that can be targeted for expansion. Quality financial reports provide a solid basis for strategic decision-making. Accurate and structured data makes it easier for MSME actors to plan investments, manage budgets, and allocate resources optimally to support business growth. Comparing the quality of financial statements can also help in identifying financial risks that may be faced by MSMEs.

Comparing the quality of MSME financial statements to make strategic decisions in accordance with the theory of decision usefulness is a crucial process in business management. Decision usefulness theory focuses on providing useful information for decision-makers, in this case, MSME actors and other stakeholders.

The results of this study are in line with research (Lado & Paramitalaksmi, 2023) The length of time a business actor has been in operation can have an impact on how they think and act, which can alter how they view MSME actors in regard to financial accounts and how they make decisions. This implies that the veracity of financial accounts is significantly impacted by the lifetime of operations. Thus, human resources with a background in accounting can have an impact on the caliber of financial reports.

5. Conclusion

This study concludes that accounting comprehension has a positive and significant effect on the quality of financial statements based on its findings about the relationship between accounting understanding and business characteristics and the quality of financial statements. This indicates that business actors can accurately record transactions in compliance with applicable standards thanks to their accounting knowledge and skills. All things considered, a solid grasp of accounting is crucial to the expansion and long-term viability of MSME enterprises. In the meantime, the quality of financial statements is significantly and favorably impacted by business characteristics. Therefore, it will be utilized in financial statements more frequently the longer the organization has been in operation and the higher the overall amount of assets owned. This knowledge can be useful in recognizing previous errors and putting best practices into action that have worked.

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