Determinant Factors of the Quality of Financial Reports for Micro, Small and Medium Enterprises in Serang City and Their Implications for Financial Performance

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Abstract

This study aims to examine the factors that influence the quality of financial statements in the Finance of Micro, Small and Medium Enterprises in Serang City and their Implications for Financial Performance. These factors are understanding of accounting, level of education, business age and owner experience. Meanwhile, financial performance uses the Return On Assets (ROA) indicator. Micro, Small and Medium Enterprises in Serang City used the sample for 2018 – 2022. The test tool used is SPSS V.22. The results prove that the owner's understanding of accounting and experience can improve the quality of MSME financial reports in Serang. While education level, company size, and business age have no effect. Another result positively influences the quality of financial reports on the Financial Performance of MSMEs in Serang City.

Keywords: Quality of Financial Statements, Accounting Understanding, Education Level, Business Age and Financial Performance.

INTRODUCTION

The existence of Micro, Small and Medium Enterprises (MSMEs) in Indonesia dominates the business by 99.99%. The Yusuf Ishak Institute survey (2020) results show that Indonesia has 64,199,600 businesses, 99.99% of which consist of MSMEs. The contribution to employment absorption, the formation of the National Gross Domestic Product (GDP), national foreign exchange, and national investment is no longer in doubt in the national economic system (Ministry of Cooperatives and SMEs, accessed 19 October 2022). SMEs in Serang City A total of 10,524 businesses, or 7% of the total SMEs in Banten Province. Although the number is small compared to other regencies or cities in Banten Province, Serang City is the capital of Banten Province. In addition, Serang City is the centre of government, education centre and cultural centre. Under these conditions, it will be an opportunity and potential for UMKM in Serang City to support changes in Serang. The proximity factor of Jakarta-Banten transportation can be a comparative advantage to win the competition in reaching the market
in the City of Serang. In addition, Serang City SMEs can get marketing opportunities in JABOTABEK.

According to the Organization for Economics Cooperation and Development (OECD, 2002), the role of MSMEs in a country's economic development cannot be ignored; in some countries, MSMEs act as exporters. In addition, SMEs are also considered the primary source of employment and innovation (Le & Quang, 2005). MSMEs occupy a significant position in the country's economy. According to the Ministry of Cooperatives and Small and Medium Enterprises (UKM), in 2018, the contribution of MSMEs to gross domestic product (GDP) reached 60.34%, as well as employment of 116.73 million people or 97.02% of the total working workforce.

According to Law No. 2 of 2008 concerning Micro, Small and Medium Enterprises, the purpose of the existence of MSMEs is to grow and develop their businesses in the framework of building a national economy based on a just economic democracy. Therefore, in Indonesia, MSMEs are the leading supporter of the Indonesian economy. Of the 59 million business actors, as many as 58 million are MSMEs, so MSMEs are Indonesia's primary economic support (Tribunnews.com, 2016). MSMEs occupy a significant position in the country's economy.

The growing development of MSMEs in Indonesia requires quality management, one of which is quality financial reports. Quality financial reports based on MSME Financial Accounting Standards. It is intended that the financial report information produced by MSMEs has quality by the conceptual framework of financial reports. Nyor (2013) defines the quality of financial reporting as a form of the accuracy of financial information that reflects operating performance so that it can be used to forecast current cash in the period valuable front for the user Hernández et al. (2020). The quality of MSME reports can be influenced by several factors, including experience (Mang’ana et al., 2023); Education et al. et al., (2020); Understanding of Accounting (Habran et al., 2021) and Min & Kim’s length of business (2022). Several other studies have yielded different conclusions, including Min, S., & Kim, J. (2022) proving that experience does not affect the quality of MSME financial reports, Sahaym et al. (2021); Liu et al., AM (2022) concluded that education level does not affect the quality of financial reports, Brixiová, Z., Kangoye, T., & Yogo, TU (2020) that understanding of accounting does not affect the quality of MSME financial reports. Other research proves that the quality of MSME financial reports improves financial performance. This is evidenced by Kaberia, SK, & Muathe, S. (2021) that the increase in financial performance is caused by the public’s trust in the management of MSMEs in terms of the financial reports presented by MSMEs by generally accepted standards.

Meanwhile, in Indonesia, the research conducted by Auliah & Kaukab (2019) and Sundari (2020) states that understanding accountancy own that influence positive quality report finance. Results research that is inversely proportional is shown by Pebriantari & W (2021), who concluded that not all business actors understand how to classify evidence of bookkeeping transactions. This is in line with research by Nova (2015), Safrida (2010), and Abidin (2021), which found a negative relationship between understanding accounting on the quality of financial reports. This difference shows the importance of further discussion, so it needs to be further investigated, resulting in differences in the understanding of business owners' accounting somebody.

Accounting information is vital in achieving business success, including for small businesses (Magginson et al., 2000). Accounting information can be a reliable basis for making economic decisions in managing small businesses, including market development decisions,
pricing, etc. The provision of accounting information for small businesses is also needed, especially for access to government subsidies and additional capital for small businesses from banks (Tarmizi & Bugawanti, 2013). Furthermore, the size of the MSMEs it manages influences access to the banking industry. This is the opinion of Tuti and Patricia (2014) that business size is a scale that indicates the size of a company as measured using the criteria of the number of employees, company assets, or company sales. This opinion is supported by (Pratiwi & Hanafi, 2016) that the larger the UKM and KM, the manager needs financial reporting to assist asset management and financial performance evaluation. In addition, according to (Tuti & Patricia, 2014), the increasing growth of MSME businesses, the higher the need for standardized financial reports to assist business development.

Changes in the behaviour of MSME managers contribute to increasing awareness of managing MSMEs through technological developments, policies and consumer demands. This is the opinion of Tejamaya, M., Puspoprodjo, W., Susetyo, H., & Modjo, R. (2021). Meanwhile, to encourage the competitiveness of MSMEs to continue to increase, the government, through the Ministry of Cooperatives and MSMEs (2022), launched a digitization program with a target of 30 million MSMEs entering the digital ecosystem by 2024. Even though this is not an easy challenge, the program must still be implemented for the sake of improving the structure of the national economy, which is dominated by the business sector (Kemenkopukm.go.id)

Thus the problem in the formulation of this study is: Does accounting understanding, education level, and business age affect the quality of MSME financial reports in the city of Serang, and is there any effect of the quality of financial reports on financial performance? This research was conducted to obtain empirical evidence of determinant factors affecting the quality of MSME financial reports in Serang and their implications.

The benefit of this research for MSMEs is that it can be used as evaluation material for MSME managers to become better. The academic contribution is expected to provide evidence of this research phenomenon so that it can be used as information for decision-making.

THEORITICAL FRAMEWORK AND HYPOTHESIS

Proprietary theory

Proprietary theory assumes that the owner of the entity and the entity itself are the same or inseparable. Proprietary theory has existed in practice for a long time, but only in 1955 was it designed to become a theory by Arthur Theophile Roberts. Even though investors only inject funds or assets, it does not mean that they do not have the right to act as decision-makers in related entities. However, with the entity’s management being taken care of by the owners themselves, this eliminates the possibility of a conflict of interest, which is clearly illustrated by the agency problem.

Although bookkeeping can still occur in an entity that is not segregated between entities, it can be challenging to classify personal and business-relevant transactions. In terms of taxation, it will take more work because, fiscally, it only recognizes transactions that are by 3M (Obtain, Collect and Maintain). The phenomenon of this research is explained by this theory, namely that MSME managers as owners also double as managers. This requires better management by applicable standards or regulations so that there is a separation of assets between owners and managers.
Accounting Understanding

According to Auliah & Kaukab (2019), an understanding of accounting can be measured by a person’s understanding of recording financial transactions, classifying, determining summaries, reporting and interpreting financial data. This is because the more extensive one’s understanding of accounting, the greater the understanding of disclosing and presenting financial reports by applicable regulatory standards. In addition to understanding accounting, the factors that influence MSMEs in compiling financial records are the benefits of accounting. Financial recording activities are essential for SME entrepreneurs. This is because the existence of accounting can provide benefits that significantly affect the business continuity undertaken by SME entrepreneurs. Wahyudi (2009) revealed that accounting benefits affect the preparation of financial records. This means that with the benefits of accounting that MSME owners feel, MSME owners will use financial records to make decisions in running a business. The herding behaviour of MSME owners may influence MSMEs in compiling financial records. Herding behaviour is an individual tendency to imitate the actions of a larger group of people (Subash, 2012). Herding behaviour by MSME entrepreneurs can be shown by making financial records if other people or other MSME entrepreneurs make financial records, or vice versa. This happens because individuals have limitations in thinking caused by inadequate individual abilities and a lack of information obtained (Andhika & Damayanti, 2017). Andhika & Damayanti (2017) also suggested that herding behaviour positively affects willingness to make financial records. This means that with herding behaviour, MSME entrepreneurs will be influenced to compile financial records. The more often MSME entrepreneurs interact with fellow MSME entrepreneurs who make financial records; it will improve and grow MSME owners in compiling financial records.

Level of education

The educational level of employees can affect the company’s competitiveness and improve company productivity (Yuniarti & Suprianto, 2014). The education level of business owners also has a positive association with credit. The higher the level of people’s income and education, the more likely they are to access banking services such as having an account at a bank or taking credit (Fungacova & Weill, 2014). In addition, the higher the education level of MSME actors, it will likely make it easier for them to understand the applicable provisions and regulations (Marpaung, 2016).

According to Wahyono (2017), level education is a level or stage of education that must be taken based on the level of development of participant education, the objective they want to achieve, And the abilities to be developed. A higher level of education will provide an increased ability to absorb information, acquire, transform, and exploit new knowledge (Hermert et al., 2011).

Business Age

In this case, the company’s age is the length of time a Micro, Small and Medium Enterprise (MSME) has been established or the age of the MSMEs since the business was founded when the author conducted this research. Assuming that the longer the business runs, the more it will result in very significant business development in a positive or negative direction. The development of this business depends on the trade climate and competition that occurs in the business world or market (Wulandari, 2016).

According to Nurhidayati (2019), business life is the length of time an entrepreneur or trader carries out a business in running his business. The length of the establishment of a
business is a consideration in the assessment Good by party bank nor investors moment need additional business funding (Rudiantoro & Siregar, 2012). Based on this, the business age indicator used in this study refers to Mulyaga’s research (2016) in the form of business age measured by time in years since its establishment business until the study. This done.

**Quality of Financial Statements**

Financial reporting must have good quality information to be used optimally by users of a company's internal and external financial reports. Qualitative characteristics are the characteristics that make the information in financial statements applicable to users. There are ten qualitative characteristics in SAK ETAP 2013: understandability, relevance, materiality, reliability, substance over form, sound judgment, completeness, comparability, timeliness, and balance between costs and benefits.

Kotler (2005:57) defines quality as a whole characteristic And characteristic product or service supporting the ability to satisfy implied needs. The Indonesian Institute of Accountants (2004) defines financial reports as the final stage of the financial reporting process. This intended stage usually includes a balance sheet, income statement, statement of changes in equity, and footnotes as an integral component of the financial statements.

According to Devi et al. (2017), the quality of financial reports is the final result obtained from the process of accounting activities in the form of a summary of financial transactions. The quality of financial reports can be used as a reference in making economic decisions for users (Sundari, 2020). The quality of financial reports depends on the information presented and how the financial statements are prepared based on the conceptual framework and basic accounting principles such as SAK ETAP.

**Framework**

Based on the theoretical explanation and problem relationships above, the picture below is the framework used in this study.

![Figure 1. Research Model I](image1)

![Figure 2. Research Model II](image2)
Hypothesis

Effect of Understanding of Accounting on the Quality of Financial Statements

Yuliani (2010) argues that the low quality of financial reports can be caused by an understanding of accounting from the preparers of the financial statements themselves and the not optimal implementation of the accounting information system. In making decisions, free from misleading notions, material errors and reliable so that the financial statements can be compared with previous periods.

Company accounting information depends on how much information is presented periodically and can be helpful for users (Pebriantari & W, 2021). Good financial information management is influenced by someone who masters and understands the science of accounting. Key from something success company in own mark Which tall based on one's abilities, skills, knowledge, and understanding (Nasruddin, 2008). Devi et al. (2017) state that accounting understanding positively affects quality report finance. Based on the description, the hypothesis can be formulated as follows.

H 1: Understanding accounting has a positive effect on the quality of financial reports

The Effect of Education Level on the Quality of Financial Statements

A higher level of education can increase a person's ability to improve performance. The poor quality of local government financial reports requires that every financial manager have good knowledge of financial reports to avoid misleading readers and report users. Because not all employees who have a higher level of education understand and can solve problems in regional financial reports. This is due to an error in the placement of employees, where many employees still need to be placed according to their expertise Wungow et al. (2016). According to Anugraheni (2016), the level of education owned by business actors will reflect on the quality of human resources, which will later influence the preparation of a company's performance and organization in producing financial reports. This theory is supported by the results of research conducted by Murti et al. (2018), which states that the level of education has a positive effect on quality report finance. Based on this description, the hypothesis can be formulated as follows.

H 2: Education level has a positive effect on report quality

The Effect of Operating Age on the Quality of Financial Statements

In this case, the business is the length of time an MSME has been established or the age of the MSME since the business was founded until the time the author conducted this research (Murniati, 2002). The length of time a Micro, Small and Medium Enterprise (UMKM) or the age of an MSME since the business was established when the author conducted this research (Murniati, 2002). Assuming that the longer the business runs, it will result in significant business development in a positive or negative direction. The development of the business depends on the trade climate and competition that occurs in the business world or market. Moreover, businesses that have been standing longer tend to be more developed because they already have much experience running their business. Moreover, businesses with a well-established age can compete more with other MSME businesses/actors.

Entrepreneurs, as agents who have businesses that tend to be long-established, will undoubtedly give more confidence to creditors as principals in the availability of providing
loans compared to businesses that have just been established. This theory is supported by the results of research conducted by Erawati & Setyaningrum (2021), which state that business age affects the quality of financial reports. Based on this description, the hypothesis can be formulated as follows.

H 4: Age of business has a positive effect on the quality of financial reports.

**RESEARCH METHODS**

This study uses a quantitative approach with measurement results from filling out the questionnaire. Source data was primarily obtained from the questionnaire and filled in directly by the MSME owner (specifically, the questionnaire criteria determined by the researcher). Population in study This is UMKM managers in Serang City with scope business in all sectors.

The sampling technique used in this study is *purposive sampling*, which is a sampling technique that is carried out by taking subjects based on a specific purpose (Sugiyono, 2015, p. 85). The criteria for the research sample are as follows:

a. MSME owners in the wholesale and retail trade business sector, car and bicycle repair motorcycle.

b. MSMEs that have prepared financial reports for 2020 - 2022

The number of samples used was 225 MSME owners, with criteria determined by researchers from the results of the Slovin formula (Lestari & Priyadi, 2017). The basis for measuring the questionnaire in the questionnaire uses a Likert scale with an initial value of 5 as a form of voting opinion "SS" (Strongly Agree) and one as a form of opinion "STS" (Strongly Disagree).

<table>
<thead>
<tr>
<th>No</th>
<th>Category</th>
<th>Code</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Category Strongly Agree</td>
<td>&quot;SS&quot;</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Category Agree</td>
<td>&quot;S&quot;</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Disagree category</td>
<td>&quot;KS&quot;</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Disagree Category</td>
<td>&quot;TS&quot;</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>Category Strongly Disagree</td>
<td>&quot;STS&quot;</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Sugiyono, 2013

**Variables and Their Measurements**

The variables to be analyzed and measured in this study are as follows. Financial Report Quality Variable as an independent variable is helpful financial information when making decisions related to investment, funding, and others (Sundari, 2020). Qualitative characteristics are used as a characteristic in compiling financial information that is useful to users. Quality financial reports according to SAK EMKM perceptions. This means that the financial statements presented have met the four main qualitative characteristics based on the perception of SAK EMKM.

Variable Understanding of Accounting as an independent variable is accounting flow that starts from recording, classifying, and summarizing transactions in interpreting financial results (AICPA). Predetermined indicators are used to find out the perception of understanding related to the accounting process by MSME owners as a basis for preparing financial reports. Next Education Level that Law Number 20 of 2003 concerning the national
education system defines education as a conscious and planned effort in creating a learning atmosphere and learning process so that students actively develop their potential to have religious, spiritual strength, self-control, personality, intelligence, noble character, as well as the skills needed by himself, society, nation and state. Education is a process taken by someone to develop all aspects of personality to have a good personality. To measure the level of education, then used indicators that have been determined. Another independent variable is Business Age, the age of the business is the length of time a business has been established since the business was founded until the research was conducted.

Furthermore, for the next test, namely measuring the implications of the quality of financial reports on MSME financial performance, the proxy used is Return on Assets (ROA), which is the ratio of the profit generated divided by total assets.

**Research Instrument Testing**

Testing in this study begins with a descriptive statistical analysis, providing information on data seen from the mean value, minimum value, maximum value, and standard deviation. Statistical descriptive analysis is used to analyze data by describing the data that has been collected (Sugiyono, 2013: 206). Furthermore, the Coefficient of Determination (R2) is the basis for measuring how far the model can explain variations in the dependent variable. The measured value of the coefficient of determination is between zero and one. This is explained if the value gets closer to one, which means that the independent variables provide almost all the information needed to predict the variation of the dependent variable.

Hypothesis testing uses the t-test to calculate the regression coefficients individually. Through the t-test, it can be known whether the hypothesis is accepted or rejected so that we can find out whether the independent variables significantly influence the dependent variable or not. The t-test with a significance level of 5% (α=0.05) with the condition that if statistically, the p-value is <0.05, then the hypothesis, which states that there is an influence of the independent variables on the dependent variable, is acceptable. At the same time, testing the model used Multiple Linear Regression which is a study of the dependence of the dependent (bound) variable with one or more independent variables (independent variables) to estimate and predict the average population or the average value of the dependent variable based on the value of the variable known independence. The statistical equation of this study is:

\[ KL = \alpha + \beta_1 PA + \beta_2 TP + \beta_3 US + \epsilon \]

\[ KK = \alpha + \beta_1 KL + \epsilon \]

**Information:**
TOS: MSME Financial Report Quality
a: Constant value
b: Coefficient of regression direction
PA: Understanding of accounting
TP: Education level
US: Age of business
CC: Financial Performance
e: Standard error
RESULTS AND DISCUSSION

Based on purposive sampling, 225 samples were obtained with 450 respondents, namely owners and managers of MSMEs in Serang City. The types of MSME businesses used as samples are:

Table 2.

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Amount</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery Trade</td>
<td>86</td>
<td>38.22%</td>
</tr>
<tr>
<td>Service</td>
<td>77</td>
<td>34.22%</td>
</tr>
<tr>
<td>Home Industry</td>
<td>41</td>
<td>18.22%</td>
</tr>
<tr>
<td>Etc</td>
<td>21</td>
<td>9.33%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>225</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Table 2 shows the highest number of types of businesses, namely the Grocery Trade, with 86 units. Furthermore, service industries amounted to 77 units, home industries to 41 units, and other minor types of businesses were 21.

Table 3

<table>
<thead>
<tr>
<th>Statistics Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>PA</td>
</tr>
<tr>
<td>TP</td>
</tr>
<tr>
<td>US</td>
</tr>
</tbody>
</table>

Table 3 shows that the Accounting Comprehension Variable (PA) has the highest value of 0.6411 while the lowest value is 0.2309, with an average value of 0.4621. Furthermore, the variable Level of Education (TP) obtained an average value of 12.1230; 0.4112 was obtained for the maximum value, while the minimum value was 0.2309. Another variable, namely Business Age (US), has a minimum value of 0.5699, while the maximum value is 0.8891, while the average value is 0.7782. Meanwhile, the variable Quality of Financial Statements (KL) shows an average value of 5.3527, the maximum value obtained is 8.1123, and the minimum value is 3.7856.

Hypothesis Testing Results

This multiple regression test is performed using the backward method. Based on Table 3. Adjusted R2 shows a value of 0.1649. This value explains that 16.49% of the variation in the quality of financial statements can be explained by the three independent variables PA, TP and US. Other causes outside the model explain the remaining 83.51%. The calculated F value in the table shows the number 17.2074 with a probability of 0.000. The F value is greater than 4, and the probability value is less than 0.05, so the regression model has a good level (good overall model fit) and can be used to predict the quality of financial statements.

The results of testing the hypothesis using regression analysis show the following:
Table 4 (1st model) regression analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>coefficient</th>
<th>Q</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.661</td>
<td>-0.1236</td>
<td>0.2181</td>
</tr>
<tr>
<td>PA</td>
<td>0.0313</td>
<td>22,465</td>
<td>0.0261 *</td>
</tr>
<tr>
<td>TP</td>
<td>0.0859</td>
<td>52,846</td>
<td>0.0000 *</td>
</tr>
<tr>
<td>US</td>
<td>0.0072</td>
<td>37,143</td>
<td>0.0000 *</td>
</tr>
<tr>
<td>R Square</td>
<td>0.1748</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.1649</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td></td>
<td>172,074</td>
<td>0.000</td>
</tr>
</tbody>
</table>

*)0.05

Table 4 above shows that good predictors of financial report quality, namely PA, have a regression coefficient of 0.0313 value with a significance level of 0.000 (<0.05). These results indicate that PA significantly positively affects the Quality of Financial Statements. The regression coefficient value of the TP variable is 0.0859, with a significant probability of 0.000. These results indicate that TP has a significant positive effect on report quality (5% level). The regression coefficient value of the US is 0.0072, with a significant probability of 0.000. This value means that the size of TP has a significant positive effect on the quality of financial statements (5% level). The conclusions from the previously described results are that H1, H2, and H3 are accepted.

Table 5 (2nd model) regression analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>coefficient</th>
<th>Q</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.1663</td>
<td>0.6457</td>
<td>0.2182</td>
</tr>
<tr>
<td>KK</td>
<td>0.1980</td>
<td>3</td>
<td>0.0100 *</td>
</tr>
<tr>
<td>R Square</td>
<td>0.1317</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.1889</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>17.310</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The test results for Model 2 are shown in Table 5, and the significance value of α is 0.0100 with a T Count value of 3.686. This shows that the hypothesis that there is a positive influence on the quality of financial reports on financial performance in MSMEs is acceptable. Thus H4 is accepted. The Adj R² result is 0.1889. This shows that an independent variable of 18.89% can explain financial performance. Meanwhile, 81.11% is explained by other variables. This evidence shows the prediction that
improving the quality of financial reports can increase trust in stakeholders so that they respond positively. The respondent in question is an increase in the trust of the banking industry and consumers accompanied by optimal service.

CONCLUSIONS

Based on the research results, the following conclusions can be made. The average level of Quality of MSME Financial Reports in the city of Serang is 5.3527, respectively. This shows that the quality of MSME financial reports in cities must still be by EMKM financial accounting standards. These results indicate that the importance of quality financial reports has yet to be fully implemented by MSME managers.

The results of testing the hypothesis and predictions of improving the quality of financial statements are influenced by an understanding of accounting, educational level and business age, which are significantly accepted. This shows that with these factors, managers are expected to understand the usefulness of this evidence. Meanwhile, other evidence is that improving the quality of financial reports will improve financial performance. This proves that the higher the quality of financial reports by applicable standards, the more relevant accounting information will be provided. This relevance will provide a positive response from stakeholders.

Some of the limitations experienced by the author in this research are as follows. The scoring of items related to the quality of financial reports by the MSME is influenced by the researcher’s subjectivity. We have not considered other variables affecting the Quality of Financial Statements. This study only covers one year and is limited to information and access to MSMEs only.

Some suggestions that the author can provide for further research are as follows. Extend the scope of the characteristics of MSMEs to test their effects on the quality of financial statements. Broaden the scope of research that examines the quality of financial reports and other aspects—extending the observation period into a longitudinal study to understand the quality of financial statement patterns better. Expanding data sources through press releases, stand-alone reports, websites and other documents. Researching to compare with other countries, thus adding a source of reference on the practice of SMEs in various countries.

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