

Influencing Factors on the Quality of Financial Statements in Micro, Small, and Medium Enterprises: Accounting Understanding and Work Experience

Accounting Understanding and Work Experience on the Quality of Financial Statements in MSMEs

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ABSTRACT

This study aims to determine the effect of accounting understanding and work experience on the quality of financial statements, focusing on a case study of Micro, Small, and Medium Enterprises (MSMEs) in the Medan Deli Region registered at the Cooperative Service. The research, conducted in the Medan Deli District, employed quantitative methods. It specifically targeted MSMEs registered at the Cooperative Office in 2022, comprising a population of 1825 MSMEs in Medan City, with a sample size of 70 respondents. Data collection techniques involved a comprehensive literature review and the distribution of questionnaires. The analysis methods included statistical analysis techniques and multiple linear regression analysis, employed to test the effect at the 5% significance level. The t-test was applied to determine the partial effect of accounting knowledge and work experience on the quality of financial statements, while the f-test assessed the simultaneous effect of independent variables on dependent ones. The study's results indicate that accounting knowledge and work experience positively and significantly influence the quality of financial statements. The findings confirm that accounting knowledge and work experience concurrently impact the quality of financial statements.

Keywords: *Accounting Understanding, Work Experience, Financial Statements, Micro, Small, and Medium Enterprises (MSMEs), Medan Deli.*

ABSTRAK

Penelitian ini bertujuan untuk menentukan pengaruh Pemahaman Akuntansi dan Pengalaman Kerja terhadap Kualitas Laporan Keuangan, dengan fokus pada studi kasus Usaha Mikro, Kecil, dan Menengah (UMKM) di Wilayah Medan Deli yang terdaftar di Dinas Koperasi. Penelitian ini dilakukan di Kabupaten Medan Deli dan menggunakan metode kuantitatif. Sasaran khusus adalah UMKM yang terdaftar di Kantor Koperasi pada tahun 2022, yang terdiri dari populasi 1825 UMKM di Kota Medan, dengan sampel sebanyak 70 responden. Teknik pengumpulan data melibatkan tinjauan literatur yang komprehensif dan distribusi kuesioner. Metode analisis melibatkan teknik analisis statistik dan analisis regresi linear berganda, yang digunakan untuk menguji pengaruh pada tingkat signifikansi 5%. Uji t digunakan untuk menentukan pengaruh parsial dari pemahaman akuntansi dan pengalaman kerja terhadap kualitas laporan keuangan, sementara uji f digunakan untuk menilai pengaruh simultan dari variabel independen terhadap variabel dependen. Hasil penelitian menunjukkan bahwa pemahaman akuntansi dan pengalaman kerja berpengaruh positif dan signifikan terhadap kualitas laporan keuangan. Temuan ini mengkonfirmasi bahwa pemahaman akuntansi dan pengalaman kerja secara bersamaan memengaruhi kualitas laporan keuangan.

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Kata kunci: *Pemahaman Akuntansi, Pengalaman Kerja, Laporan Keuangan, Usaha Mikro, Kecil, dan Menengah (UMKM), Medan Deli.*

INTRODUCTION

Within the context of empowering Micro, Small, and Medium Enterprises (MSMEs) in Medan City, the Cooperatives Department, guided by its vision and mission, endeavors to enhance the roles of cooperatives and MSMEs in fostering a self-sustaining entrepreneurial environment. This objective aligns with the broader goal of cultivating a people-centric economy, serving as a tangible expression of upliftment for the socioeconomic strata at the grassroots level. Government Regulation (PP) No. 7 of 2021, addressing the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, is a regulatory derivative of the Job Creation Law. As per the definition outlined in the Republic of Indonesia Law Number 20 of 2008 Chapter 1 Article 1, MSMEs are delineated as business entities comprised of individuals or cooperative legal entities. Their activities are anchored in cooperative principles, representing a grassroots economic movement founded on the principles of kinship. Micro businesses are characterized as productive ventures owned by individuals or entities meeting specified criteria for micro-businesses (Sugiyono, 2016). Small businesses are independent productive economic entities conducted by individuals or business entities, distinct from subsidiaries or branches of larger enterprises. Medium businesses, similarly standalone and independent, are conducted by individuals or business entities not directly or indirectly affiliated with small or large businesses, meeting the criteria for medium-sized enterprises. The implementation of an accounting recording system is posited as a catalyst for accelerated development in MSMEs, distinguishing them from enterprises that solely focus on sales profits without due consideration for financial risks. Additionally, work experience emerges as a pivotal factor in buttressing business endeavors, encompassing acquired abilities, knowledge, and skills cultivated over time. This is manifested through actions, reactions, dexterity, and a multitude of experiments undertaken in the course of specific job responsibilities.

The primary challenge currently faced by Micro, Small, and Medium Enterprises (MSMEs) that demands immediate attention is the improvement of sound accounting practices. Many MSMEs have not undertaken a comprehensive accounting process, perceiving it as arduous, time-consuming, and costly. Nevertheless, certain business entities, albeit unknowingly, have initiated preliminary stages of the accounting process by recording transactions and maintaining transaction evidence. The hurdles impeding MSMEs in implementing accounting practices are multifaceted, encompassing factors such as inadequate skills, lack of prior accounting training, and insufficiently managed accounting needs (Alifah & Pratama, 2020). Government initiatives in enforcing Financial Accounting Standards for Micro, Small, and Medium Entities are anticipated to facilitate the transition from cash-based reporting to accrual-based financial statementing. The preparation of financial statements aligning with established accounting standards serves as a crucial aspect for evaluating the long-term sustainability of micro, small, and medium enterprises. Recognizing the advantages offered by accounting, MSMEs should acknowledge its significance for their enterprises. The application of accounting principles can bolster the financial aspects of MSMEs, enabling strategic planning and potential profit augmentation. Enhanced income levels contribute to the overall development of MSMEs, positioning them as a viable solution to Indonesia's economic challenges. However, a notable proportion of MSMEs still neglect the utilization of accounting in their business operations. Some argue that accounting is deemed challenging and inconsequential, believing that MSMEs can operate smoothly and profitably even without accounting practices (Pakpahan & br Naibaho, 2023).

Subsequent to interviews and surveys, a proprietor of a culinary enterprise revealed a lack of adherence to proper accounting practices in the business operations. The proprietor frequently encountered difficulties in maintaining accurate records, attributing the deficiency to a lack of knowledge about accounting procedures. Factors affecting this inadequacy encompass insufficient background experience, a lack of prior accounting training, and inadequacies in meeting accounting needs. Consequently, these factors have a direct impact on the suboptimal generation of business income. Drawing from

statements provided by Micro, Small, and Medium Enterprises (MSME) participants in the Medan Deli region, it can be deduced that the influence of accounting understanding and work experience is intricately linked to the quality of financial statements. This linkage stems from a prevailing lack of awareness in effectively managing financial statements. Considering these identified challenges as the primary determinants for MSME operators, the study examines the impact of accounting understanding and work experience on the quality of financial statements within the Medan Deli area.

LITERATURE REVIEW

The conceptualization of accounting, as outlined by Bahri & Rahmawaty (2016), involves an artful process encompassing the recording, classification, summarization, and reporting of transactions. These activities serve the purpose of furnishing relevant reports to stakeholders interested in the current financial status of the business. Accounting is identified as a discipline devoted to the recording, analysis, and communication of transactions or economic events within a business entity. Its overarching goal is to generate and report pertinent information for diverse interested parties involved in decision-making (Agie Hanggara, 2019).

Defined as an information system, accounting, according to Fitri (2018), Sumaryati et al. (2020), and Saputra et al. (2021), furnishes reports to users of accounting information or stakeholders, offering insights into the company's performance outcomes and financial standing. Often regarded as the language of business, accounting communicates business information to stakeholders through reports. Business transactions undergo identification, analysis, recording, and subsequent reporting through accounting reports, serving as a conduit for disseminating accounting information. A business transaction, per Devi et al. (2020), is construed as an economic event or occurrence influencing changes in a company's financial position. According to the 2015 Financial Accounting Standards (SAK), financial statements are integral to the financial statementing process. A comprehensive financial statement typically comprises a balance sheet, profit and loss statement, a report on changes in financial position (presented diversely, e.g., as a cash flow statement or funds flow report), along with notes and supplementary materials that form an integral part of the financial statement. Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs) explicitly adopts the concept of a business entity as one of its fundamental assumptions. Therefore, for the preparation of financial statements based on SAK EMKM, an entity must effectively segregate the personal wealth of the owner from the assets and outcomes of the business entity, as well as distinguish between one business or entity and others (Devi et al., 2020).

Financial statements serve to depict the financial status and operational outcomes of a company within a specific timeframe. Commonly recognized types of financial statements encompass balance sheets, profit and loss reports (business results), cash flow reports, and reports on changes in financial position (Hasanaj & Kuqi, 2019). These reports are subject to normative requirements, ensuring that financial statements for Micro, Small, and Medium Enterprises (MSMEs) attain the desired quality (Fajariah et al., 2020). Consequently, the quality of financial statements can be perceived as the ultimate outcome of the accounting process, providing comprehensible financial information for users and facilitating future decision-making. Accounting understanding denotes the extent of one's proficiency in comprehending accounting comprehensively, covering both the knowledge base and the procedural aspects, ranging from transaction recording to the formulation of financial statements (Oktari, 2022). This implies that an individual with accounting understanding possesses the intelligence to comprehend and navigate the accounting process, ultimately generating accurate financial statements in alignment with the principles and standards stipulated in Government Regulation No. 71 of 2010 concerning financial accounting standards. In essence, understanding is viewed as the process, method, or act of comprehension. The comprehension of accounting involves an individual's ability to grasp and comprehend accounting intricacies, gauged through an understanding of the financial transaction recording process, grouping,

summarizing, reporting, and data interpretation. In this research, indicators of accounting understanding are observed through the lens of the accounting cycle (Weygandt et al., 2018).

Experience can be characterized as episodic memory—an intricate mechanism for receiving and storing individual events transpiring at specific times and locations. This memory function essentially serves as an autobiographical reference. According to Sasongko (2018), drawing from Foster's perspective, work experience is gauged by the duration or period during which an individual has engaged in comprehending job responsibilities and effectively executing them. For entrepreneurs, work experience encompasses personal encounters or the experiences of others who have successfully initiated and managed businesses. This experiential knowledge serves as a guiding reference, aiding in avoiding pitfalls in business operations. In essence, work experience reflects an individual's proficiency, knowledge, and skills in their respective roles, quantifiable by the duration of employment and the depth of expertise attained. Establishing a business plan is imperative, summarizing resource acquisition, financial plans, administrative structures, and operational strategies. Moreover, it demands substantial experience and knowledge in business management, applicable to enterprises of varying scales, ensuring effective financial organization and management for sustained business development (Crouzet & Mehrotra, 2020). In alignment with prior research theories on the impact of accounting understanding and work experience on financial statement quality, the conceptual framework is depicted in Figure 1.

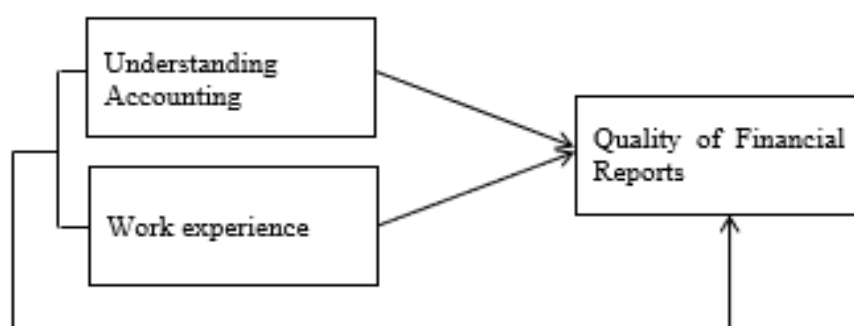


Figure 1. Conceptual Framework

Hypothesis 1 (H1): The level of understanding of accounting significantly influences the quality of financial statements for Micro, Small, and Medium Enterprises (MSMEs).

Hypothesis 2 (H2): The extent of work experience significantly influences the quality of financial statements for MSMEs.

Hypothesis 3 (H3): There is a significant and influential combined effect of understanding accounting and work experience on the quality of financial statements for MSMEs.

RESEARCH METHODS

In this study, the research design employed is associative research. Data collection involved the administration of a questionnaire and the acquisition of statements from researchers directed at Micro, Small, and Medium Enterprises (MSME) respondents in Medan Deli City. Adopting a quantitative approach, this research aligns with positivistic principles, emphasizing concrete data that can be quantified and measured using statistical tools. The positivistic philosophy is particularly suited for specific populations or samples. The data sources encompass both primary and secondary data. Primary data is directly obtained from the research object, while secondary data is derived from literature, library books, or company records related to the research problem.

The research was conducted in Medan Deli in March 2023, focusing on MSMEs registered with the Medan City Cooperative Service as the research subjects. The population for this study consists of 1825 registered MSMEs with the Medan City

Cooperatives, Small and Medium Enterprises Service. The research sample comprises 70 MSME business operators registered with the Medan City Cooperatives, Small and Medium Enterprises Service. The selection of the sample was carried out using the Purposive Sampling technique, a method that involves choosing samples based on specific criteria determined by the researcher.

RESULTS AND DISCUSSION

This study utilized the Pearson Correlation test for validity assessment, determining R table value (0.361) through $df = (N-2)$. Statements were deemed valid if R count exceeded R table. Results, in Table 2, affirmed work experience and financial statement quality statements' validity. Using Cronbach's Alpha (>0.60), the reliability test gauged the instrument's consistency. The R table value (0.361) indicated validity for both work experience and financial statement quality statements. Subsequently, the study presents the reliability test outcomes (Table 1).

Table 1. Validity Test Results for Accounting Understanding

Variable	Items	R count	R table	Cronbach's Alpha	Information
Accounting Understanding				0.691	Reliable
	ACC1	0.561	0.361		Valid
	ACC 2	0.658	0.361		Valid
	ACC 3	0.674	0.361		Valid
	ACC 4	0.558	0.361		Valid
	ACC 5	0.613	0.361		Valid
	ACC 6	0.701	0.361		Valid
Experience				0.722	Reliable
	EXP1	0.481	0.361		Valid
	EXP 2	0,366	0.361		Valid
	EXP 3	0.817	0.361		Valid
	EXP 4	0.860	0.361		Valid
	EXP 5	0.719	0.361		Valid
	EXP 6	0.670	0.361		Valid
Quality of Financial Statement				0.727	Reliable
	QFS1	0.711	0.361		Valid
	QFS 2	0.438	0.361		Valid
	QFS 3	0.665	0.361		Valid
	QFS 4	0.654	0.361		Valid
	QFS 5	0.733	0.361		Valid
	QFS 6	0.700	0.361		Valid

Derived from the normality test in Table 2, the significance value is 0.200. Therefore, it can be inferred that the residual values exhibit normal distribution, as the significance value of 0.200 exceeds the threshold of 0.05. The purpose of the multicollinearity test is to assess potential correlations among independent variables in the regression model, as indicated by examining the partial correlation coefficient between these independent variables.

In Table 3, the Tolerance values for Accounting Understanding (X1) and Work Experience (X2) are 0.796, exceeding 0.10, and the VIF values for these variables are 1.256, less than 10. The multicollinearity test, considering Tolerance and VIF, concludes the absence of multicollinearity symptoms in the regression model. The heteroscedasticity test, conducted using the Glaser method, reveals significance values for Accounting Understanding (X1) and Work Experience (X2) as 0.311 and 0.769, respectively, both exceeding 0.05, indicating no heteroscedasticity symptoms. Table 4 presents the relationship model derived from multiple linear regression analysis.

Table 2. Normality Test Results

		Unstandardized Residual
N		70
Normal Parameters^{a,b}	Mean	0.000000
	Std. Deviation	1.57838413
Most Extreme Differences	Absolute	0.068
	Positive	0.055
	Negative	-0.068
Test Statistic		0.068
Asymp. Sig. (2-tailed)		0.200^{c,d}

a. Test distribution is Normal.

Table 3. Multicollinearity and Heteroscedasticity Test Results

Model	Collinearity Statistics*		Heteroscedasticity**	
	Tolerance	VIF	t	Sig.
(Constant)			.007	.007
1 Understanding Accounting	.796	1.256	.311	.311
2 Work experience	.796	1.256	.769	.769

**Dependent Variable: Quality of Financial statements*
*** Dependent Variable: Abs_Res*

Table 4. Multiple Linear Regression

Model	Coefficients ^a				Sig.
	Unstandardized Coefficients		Standardized Coefficients	t	
	B	Std. Error	Beta		
(Constant)	.698	1.300		.537	.000
1 Understanding Accounting	.356	.066	.376	5.380	.000
2 Work experience	.584	.066	.622	8.901	.000

a. Dependent Variable: Quality of Financial statements

The multiple linear regression equation involving the variables accounting understanding and work experience is expressed as follows:

$$y = 0.698 + 0.356x_1 + 0.584x_2 + \epsilon$$

This analysis reveals significant values highlighting the relationship among accounting understanding, work experience, and financial statement quality. The constant term of 0.698 suggests that, with accounting understanding and work experience at zero, the financial statement quality is approximately 0.698. The regression coefficients indicate that a 100% increase in accounting understanding contributes to a 35.6% increase in financial statement quality, and a similar increase in work experience results in a 58.4% improvement, assuming other variables remain constant. These findings underscore the positive impact of accounting understanding and work experience on financial statement quality. The t-test assesses the individual influence of an independent variable (x) on the dependent variable (y). The t-value for the accounting understanding variable (x1) on financial statement quality (y) is 5.380, exceeding the critical t-table value of 1.99, with a significance level of $0.000 < 0.05$. Hence, it is concluded that the regression analysis on accounting understanding significantly affects financial statement quality individually. Similarly, the t-value for the work experience variable (x2) on financial statement quality (y) is 8.901, surpassing the critical t-table value, and the significance level is $0.000 < 0.05$. Consequently, the regression analysis on work experience significantly influences financial statement quality individually. The F-test, as presented in Table 5, is employed to assess whether all independent variables collectively influence the dependent variable.

Table 5. F Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	487.886	2	243.943	95.08	0.000 ^b
1 Residual	171.899	67	2.566		
Total	659.786	69			

R² = 0.860
Adjusted R² = 0.739
Std. Error of the Estimate = 1.602
a. Dependent Variable: Quality of Financial statements
b. Predictors: (Constant), Work Experience, Accounting Understanding

According to the test results, the F-count value is 95.080, surpassing the F-table value of 3.13, and the significance level is 0.000, which is less than 0.05. This indicates that the variables Accounting Understanding (X1) and Work Experience (X2) collectively and significantly impact the Quality of Financial Statements (Y). The coefficient of determination gauges the percentage relationship between the independent and dependent variables, ranging from zero to one. A low R2 value signifies limited explanatory power of independent variables, while a value close to one suggests that independent variables nearly provide all necessary information for predicting variations in the dependent variable. In Table 5, the coefficient of determination (R Square) is 0.739, indicating that the independent variables explain 73.9% of the dependent variable, with the remaining 26.1% influenced by external variables not considered in this study.

The impact of accounting understanding on financial statement quality was assessed through the significance test (t count = 5.380 > t table = 1.996, p = 0.000 < 0.05), validating its influence on MSMEs in the Medan Deli Region. Acceptance of Ha and rejection of Ho suggest the partial effect of accounting understanding on financial statements. Findings from 70 respondents revealed that those with even basic accounting knowledge implemented records in their business, contributing to efficient financial management, ease of control, and increased income generation. Several MSME participants, neglecting accounting records, merely document initial capital and daily profits without considering long-term business aspects. This aligns with research by (Mutuari & Gede, 2021; Tahar et al., 2020), indicating that comprehension of accounting principles influences financial statement preparation. It underscores the idea that when business entities grasp accounting fundamentals and processes, it prompts them to craft financial statements in line with SAK-EMKM. Such understanding empowers business entities to effectively manage finances and make informed decisions, emphasizing that enhanced accounting comprehension contributes to superior financial statement quality for MSMEs (Latifah et al., 2021).

The impact of work experience on the quality of financial statements, as indicated by the results of the t-test for the second hypothesis, demonstrates that work experience significantly affects financial statement quality in MSMEs in the Medan Deli Region. This conclusion is supported by the calculated t-test result for Work Experience at 8.901, exceeding the t-table value of 1.996, and a significant value of 0.000 < 0.05. Consequently, Ha is accepted, signifying that work experience partially contributes to the quality of MSME financial statements. Insights from responses provided by 70 respondents reveal factors affirming the influence of work experience on financial statement quality. MSME participants with work experience, particularly in accounting, adeptly prepare financial statements in line with applicable accounting standards. Additionally, interviews highlight that experienced MSME participants can mitigate errors in financial statement input, enhancing decision-making capabilities. This aligns with research by (Mawarni & Nuraini, 2021), emphasizing the positive impact of work experience on MSME financial statement quality. Overall, work experience significantly shapes the quality of financial statements for MSME players registered with the Medan City MSME Service.

The combined influence of accounting understanding and work experience on financial statement quality was assessed using the F-test, with an F-table value of 3.13. The obtained results indicate a significant value of $0.000 < 0.05$, and the calculated F-value is 95.080, surpassing the F-table threshold of 3.13. Consequently, it can be inferred that both the Accounting Understanding Program (X1) and Work Experience (X2) variables collectively impact Financial Statement Quality (Y). The purpose of financial statements is to assess current business developments and enable business operators to manage operational costs effectively. High-quality financial statements play a crucial role in making informed investment decisions. These statements offer insights into financial conditions, performance, and changes, serving as valuable considerations for decision-makers. The findings affirm that a strong understanding of accounting and substantial work experience are pivotal factors influencing the enhanced quality of financial statements, as echoed in responses from MSME actors in the Medan Deli area. Improved comprehension of accounting principles and increased work experience correlate with heightened financial statement quality.

CONCLUSION

The findings indicate that both Accounting Understanding (X1) and Work Experience (X2) significantly and positively influence the Quality of Financial Statements (Y). Individually, each variable makes a substantial contribution to enhancing financial statement quality, supported by valid and reliable measures. Heteroscedasticity and multicollinearity tests did not reveal significant issues. The multiple linear regression model, represented by the coefficient of determination (R Square), suggests that the quality of financial statements is explained by accounting understanding and work experience. Consequently, it is concluded that Accounting Understanding and Work Experience collectively play a crucial role in enhancing financial statement quality for MSMEs in the Medan Deli area.

These results align with existing literature, emphasizing the importance of understanding accounting and work experience, particularly in the accounting field, for preparing high-quality financial statements. Recommendations include government support through training, outreach, and monitoring to enhance accounting understanding in MSMEs. Collaboration between the government and MSMEs is essential for business continuity and increased financial literacy. MSME players should prioritize technical skills in financial statement preparation alongside product development. Future research should explore additional variables for a more comprehensive understanding of MSME financial statement quality, contributing to positive development in Medan City's MSMEs.

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