

IMPROVING FINANCIAL STATEMENT QUALITY WITH ACCOUNTING UNDERSTANDING

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Abstract

This study aims to analyze accounting understanding of the quality of financial statements in Micro, Small and Medium Enterprises (MSMEs) in Bandung. The reason for conducting research is because MSME actors in carrying out their activities often experience limited capital. To obtain capital, one of the efforts made is by presenting quality financial reports. A good understanding of accounting can help in presenting quality financial statements. This research uses descriptive and verifative methods with a quantitative approach. The unit of analysis in this research is MSME actors in the city of Bandung. The analysis method uses SEM PLS. The results showed that accounting understanding affects the quality of financial statements.

Keywords: Accounting understanding, financial statement quality, MSMEs

Introduction

Micro, small, and medium enterprises (MSMEs) need to prepare financial reports because they are useful for owners when making decisions. Financial statements as a basis for obtaining accurate information related to assets, debts and equity [1]. In the city of Bandung, there was a growth in MSMEs of 3.8% in 2021, there were 111,627 MSMEs and the number of assisted MSMEs registered with the KUMKM Office was 6,409. Furthermore, it is stated that the problem faced by MSME actors is the lack of capital where financial management is inefficient so that MSMEs become difficult to develop. Another problem is the lack of product innovation, marketing that has not been optimized and not having a business license [2]. Similarly, it was mentioned that MSMEs have difficulty accessing capital from banks because they are considered not to have sufficient quality financial statements and do not have a track record in the financial industry, this is because MSME actors have difficulty implementing accounting in their business [3].

Furthermore, it was mentioned that after the pandemic, MSME players in Bandung were stretched again, one third of MSME players were in the food business so that the city of Bandung was known as a culinary paradise [4]. This opportunity, of course, must be accompanied by the availability of quality financial reports. In addition to completing the requirements for accessing capital to banks, quality financial reports are also useful as a business evaluation to determine the right decision for the business [5]. However, there are still many MSME players who do not have quality financial reports and do not comply with accounting standards. Furthermore, it was stated that West Java MSME players sometimes in carrying out records such as bookkeeping financial reports were not carried out in accordance with good standards so that the resulting financial reports were not of high quality [6].

Quality financial statements are produced by competent accountants who understand and understand the accounting implementation process and are guided by generally accepted accounting provisions and standards [7]. However, there are still many people from MSME actors who do not understand accounting and do not have financial reports, while those who understand and have financial reports are very few and do not even reach 10%, unfamiliarity with accounting which is one of the factors in the lack of quality financial reports [8].

The results of previous studies mention that it is very important for developing countries to improve the quality of financial reporting to determine the financial reporting standards of companies [9]. Similarly, it is stated that financial statements are the language of business that can be used as a medium in measuring the stability of MSMEs [10]. IFRS adoption increases transparency, impacting the quality of financial reporting [11]. Good accounting understanding affects the quality of financial statements [12]. Accounting understanding and utilizing accounting information systems simultaneously affect the quality of financial statements [13]. The results showed that understanding government accounting standards and internal control positively and significantly affected the Quality of Financial Statement Reports [14]. The results showed that the application of accounting standards and internal control systems had a significant effect on the quality of financial statements [15]. Financial reporting impacts the investment and cost decisions made by companies. [16]. Engaging in business and finance functions is one way to understand accounting to increase intelligence in the business environment [17].

From this exposure, the researcher is interested in taking the topic of accounting knowledge impacting the quality of MSME financial reports. Quality financial reports make it easier for MSME players to develop their businesses.

Research Methods

Research methods are systematic and organized ways and procedures to investigate a particular problem to obtain information that is used as a solution [18]. The object of research is accounting understanding and the quality of financial statements in MSMEs. The object of research is something that will be the material of attention in research [19]. The research was conducted for MSME players engaged in convection and screen printing who are domiciled in Bandung City as many as 22 MSMEs. The data used in this research is primary data, which is obtained directly from MSME owners in the field of convection and screen printing. Data obtained through field studies and literature studies. The data that has been collected is tested for correctness and validity through validity and reliability tests. The statistical method used in this research is Structural Equation Modeling (SEM) through the Partial Least Square (PLS) approach.

Research Results and Discussion

Research Results

Validity testing aims to measure the validity of the questionnaire. The questionnaire is said to be valid if the statement on the questionnaire is able to reveal something that will be measured by the questionnaire and is declared valid or valid if it has a validity coefficient value > 0.30 .

Table 1
Recapitulation of Instrument Validity Testing Results

Variable	No.	Validity Coefficient	Critical Point	Description
Accounting Understanding (X1)	Item 1	0,882	0,3	Valid
	Item 2	0,863	0,3	Valid
	Item 3	0,843	0,3	Valid
Financial Statement Quality (Y)	Item 4	0,776	0,3	Valid
	Item 5	0,846	0,3	Valid
	Item 6	0,801	0,3	Valid
	Item 7	0,831	0,3	Valid
	Item 8	0,892	0,3	Valid

Source: Processed primary data

Based on the results of testing the variables in table 1, it is obtained that all statements used to measure the two variables have a validity coefficient greater than the critical value of 0.3 (>0.30), so that all statements are declared valid.

Reliability tests the reliability of a research measuring instrument. In this study for reliability using a two-split technique or often called Split Half.

Table 2
Recapitulation of Questionnaire Reliability Testing Results

Variable	<i>Spearman Brown</i>	Critical Point	Conclusion
Accounting Understanding (X1)	0,784	0,7	Reliable
Financial Statement Quality (Y)	0,846	0,7	Reliable

Source: Processed primary data

Based on table 2, it can be concluded that the measuring instrument used is reliable, meaning that the respondents' answers regarding the statements submitted as a reference for this study can be trusted (reliable).

Descriptive Analysis

Descriptive Analysis of Accounting Understanding

The results of the calculation of the percentage of the total score of the Accounting Understanding variable can be seen in the table below:

Table 3
Percentage Score of Respondents' Answers Regarding Accounting Understanding Variables

No	Indicator	Actual Score	Ideal Score	% Actual Score	Criteria
1	Recording Stage	72	110	65,45%	Good enough
2	Summarizing Stage	74	110	67,27%	Good enough
3	Reporting Stage	71	110	64,55%	Good enough
	Total	217	330	65,76%	Good enough

Source: SPSS Processing Results

From the table above, the percentage of responses to the accounting understanding variable is 65.76%, including the criteria is quite good, and there is a gap of 34.24%. These results indicate that there are still weaknesses in accounting understanding.

Descriptive Analysis of Financial Statement Quality

The percentage of the total score of the Financial Statement Quality variable can be seen in the following table

Table 5
Percentage Score of Respondents' Answers Regarding the Qualitative Variable of Financial Statements

No	Indicator	Actual Score	Ideal Score	% Actual Score	Criteria
1	Comprehensible	70	110	63,64%	Good enough
2	Relevant	72	110	65,45%	Good enough
3	Reliability	71	110	64,55%	Good enough
4	Comparability	70	110	63,64%	Good enough
5	Consistent	75	110	68,18%	Good
	Total	358	550	65,09%	Good enough

Source: SPSS Processing Results

Based on the table above, the number of responses to the variable quality of financial statements is 65.09%, including in the good enough category. This shows that there are still weaknesses in the quality of financial statements.

Verificative Analysis

In this study, verification analysis is used to test hypotheses based on the results of statistical calculations. The conceptual hypothesis proposed is that it is suspected that Accounting Understanding influences the Quality of Financial Statements. The statistical method used is Structural Equation Modeling (SEM) through the Partial Least Square (PLS) approach.

Structural Model Testing (Outer Model)

Evaluation of the outer model is used to see the relationship between latent variables and their indicators or manifest variables (measurement model). To evaluate the outer model, validity and reliability tests are used.

Structural Model Testing (Inner Model)

The hypotheses in this study will be tested using the path coefficient value and t-values.

Table 6
Structural Path Coefficient Value and Hypothesis Significance Test
(Path Coefficients)

	<i>Original Sample (O)</i>	<i>T Statistics (O/STERR)</i>
Accounting Understanding (X ₁) - > Financial Statement Quality (Y)	0,596	11,241

Source: Data processed using Smart PLS Software

Based on the table above, the structural path coefficient value of X₁ on Y is 0.596.

Hypothesis Testing

The Effect of Accounting Understanding on the Quality of Financial Statements

Table 7
Test t Accounting Understanding (X₁) on
Quality of Financial Statements (Y)

Latent Variable	Path Coefficient	t _{statistik}	t _{kritis}	Description	Conclution
X ₁ > Y	0,596	11,241	2,093	Ho rejected	Significant

Hypothesis testing shows that the t-statistic value for variable X₁ is 11.241. This value is greater than the critical t value of 2.093, meaning that H₀ is rejected and H_a is accepted. From these results,

Accounting Understanding has a significant effect on the Quality of Financial Statements in 22 MSME owners in the convection sector in Bandung with an influence contribution of 50.8%.

Discussion

The Effect of Accounting Understanding on the Quality of Financial Statements

The results of the research conducted show that there is a significant influence between Accounting Understanding on the Quality of Financial Statements, with a very strong category with a positive value. There is a strong positive relationship between Accounting Understanding and Quality of Financial Statements, where the better the Accounting Understanding, the better the Quality of Financial Statements will be followed. The magnitude of the effect of Accounting Understanding on the Quality of Financial Statements is 50.8% and the remaining 49.2% is the contribution of other factors not examined in this study.

The results of this study are supported by the theory of Abdul Halim et al (2010: 5) which states that understanding accounting is very important to produce quality, transparent and accountable financial reports his answers the phenomenon related to accounting understanding, namely that there are still many people from MSME actors who do not understand accounting and do not have quality financial reports. The results of this study are also supported by previous research which proves that the variable accounting understanding affects the quality of financial statements (Aniftahudin, 2016).

Conclusions and Suggestions

Conclusions

Based on the results of the study, it can be concluded that Accounting Understanding has a significant effect on the Quality of Financial Statements in 22 MSME owners in the convection sector in Bandung City. With a strong and positive correlation category, which means that the better the Accounting Understanding will improve the Quality of Financial Statements.

Suggestions

Suggestions that the researcher proposes based on the research results:

- a. To improve Accounting Understanding, it is recommended that MSME entities include their employees in training in accounting. In recruiting employees, it is advisable to have a good understanding of accounting to carry out all accounting processes up to reporting so that it will have an impact on the quality of financial reports.
- b. For further researchers, it is advisable to examine other variables using different populations and samples to obtain conclusions supporting generally accepted theories and concepts.

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