

Determining The Quality of SME Financial Reports: The Role of Accounting Understanding in Kulon Progo

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ABSTRACT

This study aims to analyse the effect of education level, business owner perceptions, MSME digitalisation, and financial inclusion on the quality of MSME financial reports in Kulon Progo, as well as to examine the role of accounting knowledge as a moderating variable. The method used is quantitative with the Structural Equation Modelling–Partial Least Squares (SEM-PLS) technique. The research sample consisted of 397 MSME owners.

The results show that education level, MSME digitalisation, and financial inclusion have a positive and significant effect on financial statement quality. Business owner perceptions do not have a significant effect. Accounting knowledge has a significant direct effect on financial statement quality but does not moderate the relationship between independent variables and financial statement quality. This study confirms that structural factors, particularly digitalisation and financial access, are strong determinants in driving MSME financial statement quality.

INTRODUCTION

MSMEs are a dominant sector that supports the Indonesian economy, including in Kulon Progo Regency. However, the main challenge that is still often encountered is the low quality of financial reports. Many MSMEs have not yet implemented systematic recording, reports are prepared in a perfunctory manner, and the information produced cannot be used for decision-making or to meet financing access requirements. The low quality of financial reports is an important reason for conducting research, as financial reports are a basic instrument for assessing business health and determining the sustainability of MSME businesses (MaulidaYanti et al., 2023). The quality of SME financial reports is an important factor affecting business continuity and access to formal financing (Arfianty et al., 2023). Previous studies have shown that the quality of SME financial reports is influenced by internal and external factors. Research by Susetyo et al. (2023) has found that accounting education and competence play a role in improving recording accuracy. Other studies by Respatiningsih et al (2024) have found that digitization through accounting applications can reduce manual recording errors and improve reporting orderliness. (Jayanti & Karnowati 2023) emphasise that financial inclusion encourages MSMEs to have more structured financial reports as an administrative consequence of financial institutions. However, these findings are not consistent regarding the role of business owner perceptions and are still limited in testing how accounting understanding interacts with factors such as education, digitisation, and financial inclusion.

From a review of previous studies, there are important research gaps. First, most studies only examine the direct effects of education, accounting literacy, digitization, or financial inclusion, but have

not examined whether accounting knowledge can strengthen the relationship between these factors and the quality of financial statements. Second, developments in MSME accounting technology now provide automated features that enable business owners to produce financial statements without having to have a deep understanding of accounting. This raises the need for research to examine whether accounting knowledge is still relevant as a moderating variable in the digital era. Third, research on the context of MSMEs in Kulon Progo is still limited, so this study has novelty value in terms of its regional context and more comprehensive integration of variables. The objectives of this study are: (1) to analyze the effect of education level, business owner perceptions, MSME digitalization, and financial inclusion on financial statement quality; (2) to assess the effect of accounting knowledge on financial statement quality; and (3) to examine the role of accounting knowledge as a moderating variable. This study is expected to produce a more comprehensive empirical understanding of the factors that influence the quality of MSME financial statements in the digital era.

The conceptual framework for this study is as follows:

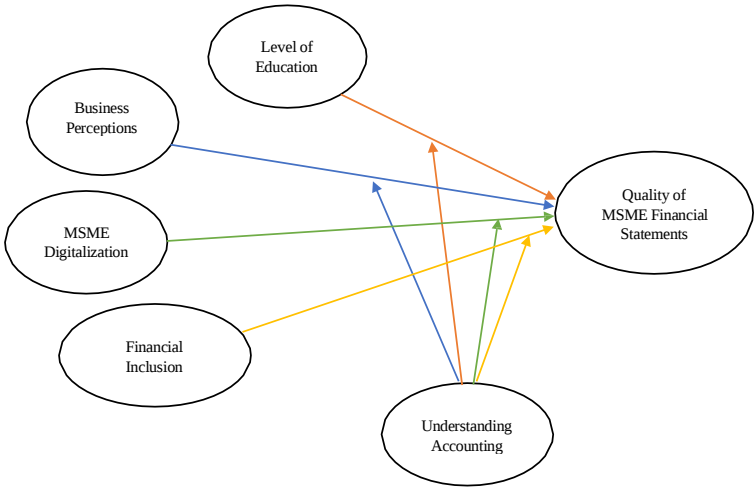


Figure 1. Conceptual Framework (2025)

The hypothesis in this study is stated in the form of a statement, namely that the level of education, business owner perceptions, MSME digitization, and financial inclusion have a positive effect on financial statement quality; accounting knowledge has a positive effect on financial statement quality; and accounting knowledge moderates the relationship between these variables and financial statement quality.

Quality of MSME Financial Statements

The quality of financial statements is determined by their relevance, reliability, comparability, and comprehensibility (Susetyo et al., 2023). In MSMEs, the quality of statements is greatly influenced by daily recording practices and the use of technology (Rahmawati & Vadila Putri, 2023). Referring to SAK EMKM, financial reporting must reflect the financial position of the business separately from the owner's personal finances (Purba et al., 2024).

Level of Education

Education improves the cognitive abilities of business actors to understand financial information. Formal education contributes to cognitive abilities in managing and compiling financial reports (Susanti et al., 2018) and (Mutuari, 2020). Research (Widyaningrum & Purwanto, 2022) found that entrepreneurs with higher levels of education tend to have a better understanding of accounting principles. However, in practice, the influence of education can vary depending on the context of business skills and experience. H1: Level of education has a positive effect on the quality of financial reports.

Business Perceptions

Perceptions regarding the importance of record keeping can influence financial reporting behavior, but previous research results have been inconsistent (Rusli et al., 2024). Oktaviranti & Alamsyah (2023) prove that positive perceptions encourage compliance in bookkeeping. Even though business actors have not mastered accounting techniques, belief in the importance of financial recording can increase discipline in preparing financial statements.

H2: Perceptions have a positive effect on the quality of financial reports.

MSME Digitalization

Digitization, particularly through the use of accounting applications such as Si Apik, iKas, and BukuKas, has been proven to improve the regularity and accuracy of transaction recording (Siswanto et al., 2020). Technologies such as accounting applications and POS systems reduce recording errors (Yunus et al., 2022).

H3: Digitalization has a positive effect on the quality of financial reports.

Financial Inclusion

Access to financial services encourages more orderly recording practices (Widyaningtyas, 2022). According to Tampubolon (2024), financial inclusion encourages the need for neat reporting to meet the administrative requirements of financial institutions.

H4: Financial inclusion has a positive effect on the quality of financial reports.

Understanding Accounting as a Moderating Variable

Understanding accounting reflects the extent to which business actors understand the accounting process, from recording to preparing standard-based financial statements. Although in theory this understanding is important as a moderator, several studies, including (Paramitalaksmi & Airawaty, 2024), show that in the context of MSMEs, accounting understanding does not necessarily strengthen the relationship between external factors (such as digitization or financial access) and reporting practices.

H5a–H5d: Accounting knowledge moderates the relationship between X1–X4 and financial statement quality.

The problem-solving approach was conducted using a quantitative method with the SEM-PLS model to comprehensively analyze the direct and moderating relationships between variables. This method was chosen because it is capable of testing structural models with complex latent variables and large sample sizes.

RESEARCH METHOD

This study uses a quantitative approach with an explanatory research design. This design was chosen because the study aims to empirically test the influence and relationship between variables, including the moderating effect of accounting knowledge in the structural model. The research subjects were MSME entrepreneurs operating in Kulon Progo Regency who had been running their businesses for at least one year. The research focuses on business operator characteristics, digital adoption levels, access to financial services, accounting understanding, and the quality of financial reports produced. The research variables consist of: (1) education level; (2) business actors' perceptions of financial recording; (3) MSME digitalization; (4) financial inclusion; (5) accounting understanding; and (6) financial statement quality. Each variable is measured using indicators compiled based on previous theories and research. The level of education is measured based on the highest level of formal education attained by business owners. Perception is measured based on business owners' beliefs and views regarding the importance of financial statements. The digitization of MSMEs is measured based on the use of accounting applications, digital transaction platforms, and digital tools that support business operations. Financial inclusion is measured based on MSME owners' access to formal financial services such as bank accounts, business loans, and digital payment services. Accounting understanding is measured by the level of mastery of basic

accounting concepts and the ability to record transactions correctly. The quality of financial statements is measured by the dimensions of relevance, reliability, comparability, and comprehensibility.

The type of data used is primary data obtained from respondents through a structured survey using a questionnaire. All variable indicators are measured using a five-point Likert scale to capture the strength of perceptions, habits, and levels of technology use. The sampling technique used purposive sampling with the following criteria: active MSME actors in Kulon Progo, having transaction records, and having used at least one form of financial service or digital business tool. The number of samples collected was 397 respondents, which is sufficient for SEM-PLS analysis according to the minimum standard of 10 times the number of indicators or the most complex path in the model. Data was collected through the distribution of questionnaires both in person and online. The collection process involved MSME assistants and local community leaders to ensure that respondents met the criteria and understood the research instruments. After the data was collected, the next stage was to check the completeness and clean the data to ensure the validity of the input into the model.

The data analysis method used Structural Equation Modeling–Partial Least Squares (SEM-PLS) through the SmartPLS application. This analysis was chosen because it is capable of testing direct relationships and moderating effects, as well as allowing the processing of non-normal data with large sample sizes. The analysis stages included convergent validity testing, discriminant validity testing, construct reliability testing, structural model testing through R^2 and Q^2 values, and path coefficient testing to measure the influence of each variable, including moderation interactions. The analysis results were used to answer the research objectives and confirm the established hypotheses.

RESULTS AND DISCUSSION

This study involved 397 MSME respondents in Kulon Progo Regency. The data obtained was processed using the SEM-PLS method through SmartPLS 3.0. The convergent validity test showed that all indicators had an outer loading value > 0.7 and AVE > 0.5 , thus declaring them valid:

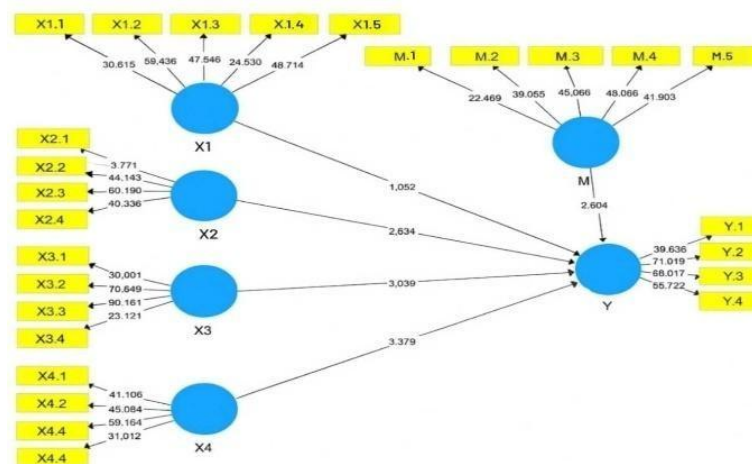


Figure 2. Outer Loading
Source: Processed data (2025)

The reliability test also showed a composite reliability value > 0.7 , indicating that the instrument is reliable:

Table 1. *Composite Reliability*

<i>Variable</i>	<i>Composite Reliability</i>
Tingkat Pendidikan (X1)	0,739
Persep Pelaku Usaha (X2)	0,740
Digitalisasi UMKM (X3)	0,737
Inklusi Keuangan UMKM (X4)	0,738
Kualitas Laporan UMKM (Y)	0,722
Pemahaman Akuntansi (M)	0,733

Source: Processed data (2025)

The structural model evaluation shows an R² value of 0.491, which means that 49.1% of the variation in the quality of MSME financial reports can be explained by the variables of education level, business owner perception, MSME digitization, financial inclusion, and accounting understanding.

Table 2. *Inner Model dengan R²*

<i>Variable</i>	<i>R-Square</i>
Kualitas Laporan UMKM (Y)	0.491

Source: Processed data (2025)

The Q² value of 0.289 indicates that the model has good predictive relevance.

Table 3. *Inner Model dengan Q²*

<i>Variable</i>	<i>Q²</i>
Kualitas Laporan Keuangan UMKM(Y)	0.298

Source: Processed data (2025)

The following table summarizes the results of the hypothesis test:

	<i>Original Sample (O)</i>	<i>Median Sample (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T-Statistics (O/STDEV)</i>	<i>P Value</i>
Tingkat Pendidikan → Kualitas Laporan Keuangan UMKM	0.351	0.346	0.126	2.790	0.044
Persepsi Pelaku Usaha → Kualitas Laporan Keuangan UMKM	0.110	0.114	0.127	0.871	0.084
Digitalisasi UMKM → Kualitas Laporan Keuangan UMKM	0.260	0.286	0.129	2.025	0.000
Inklusi Keuangan UMKM → Kualitas Laporan Keuangan UMKM	0.116	0.107	0.125	1.791	0.000
Tingkat Pendidikan → Kualitas Laporan Keuangan UMKM* Pemahaman Akuntansi	-0.087	-0.058	0.123	0.706	0.481
Persepsi Pelaku Usaha → Kualitas Laporan Keuangan UMKM* Pemahaman Akuntansi	-0.038	-0.028	0.122	0.315	0.753
Digitalisasi UMKM → Kualitas Laporan Keuangan UMKM* Pemahaman Akuntansi	-0.097	-0.038	0.103	0.766	0.451
Inklusi Keuangan UMKM → Kualitas Laporan Keuangan UMKM* Pemahaman Akuntansi	0.103	0.053	0.133	0.771	0.441

Source: Processed data (2025)

The results show that education level has a significant positive effect on the quality of MSME financial statements. This supports the findings Widyaningrum & Purwanto (2022) that formal education improves the cognitive capacity of business actors in understanding basic accounting principles.

The digitization of MSMEs has also proven to have a significant impact. This shows that the use of accounting and digital recording applications directly encourages regularity and accuracy in reporting. These findings are in line with Octaviani & Rita (2021), which emphasizes the role of technology in improving the financial systems of MSMEs.

Financial inclusion emerged as the factor with the greatest influence. MSMEs that have access to formal financial services are more motivated to prepare neat financial reports to meet administrative, credit, or financing requirements. These findings support the study by Hidayatulloh (2020).

However, business owners' perceptions of financial statements do not have a statistically significant effect, even though, in theory, positive perceptions should encourage bookkeeping practices. This shows that perceptions alone are not enough without technical skills or system support.

Interestingly, accounting knowledge as a moderating variable was not significant in all interaction paths. This shows that even though business actors understand accounting, they do not necessarily apply it concretely in business practice, especially if the recording process is assisted by an automated digital system.

CONCLUSION

This study aims to examine the factors that influence the quality of MSME financial statements in Kulon Progo Regency, considering the effects of education level, business owner perceptions, MSME digitalization, financial inclusion, and accounting knowledge as moderating variables. The results of the analysis show that:

- Education level, MSME digitization, and financial inclusion have a positive and significant effect on the quality of MSME financial statements.
- The perceptions of business actors do not have a statistically significant effect.
- Accounting knowledge, although it has a direct effect, is not significant as a moderating variable in the relationship between independent variables and the quality of financial statements.

Therefore, the quality of MSME financial reports is more influenced by structural factors (digitalization and financial access) than by perception or technical understanding alone.

Practical Implications

The findings of this study have several practical implications:

1. Local governments and MSME support institutions need to prioritize training programs based on digital accounting applications that are easy to use by business actors, regardless of their formal educational background.
2. Improvements in financial inclusion must be accompanied by administrative education so that MSMEs are able to prepare financial reports as a requirement for access to financing.
3. Conventional accounting training needs to be redesigned to be more applicable and integrated with digital recording needs, given that an understanding of accounting does not automatically improve the quality of financial reports if it is not accompanied by practical tools.

Research Limitations

This study has several limitations that should be noted:

- The quantitative approach based on questionnaires does not allow for an in-depth exploration of contextual meanings, such as the motivations or personal obstacles of business actors.
- Moderating variables are limited to accounting knowledge, while other contextual variables such as the presence of business mentors, local government policies, or local business culture are not examined.
- Respondent distribution is uneven across business sectors and subdistrict areas, limiting the generalizability of findings to similar contexts.

Recommendations for Further Research

Based on these limitations, several recommendations for future research are:

1. Use a mixed-method approach (quantitative and qualitative) to explore the perceptions, obstacles, and strategies of MSMEs in preparing financial reports.
2. Adding external variables such as business assistance, the influence of local policies, or the role of the MSME community as factors that moderate or mediate the relationship between business characteristics and reporting quality.
3. Segmenting the sample based on business sector or MSME scale in order to obtain a more specific and contextual understanding.

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