

## The Effect of Accounting Understanding and Business Size on The Quality of MSMEs Financial Statements

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### Abstract

The economic growth of Indonesia is greatly supported by the abundance of Micro, Small, and Medium Enterprises (MSMEs). MSMEs plays a crucial role in economic growth and development, giving rise to new economic sectors. During the pandemic, the number of MSMEs in Sidoarjo Regency declined, resulting in an average decrease of 61% in business profit. One of the strategies to restore profit growth is by reviewing financial reports. However, MSMEs still faces difficulties in managing financial reports. This research aims to analyze the influence of accounting understanding and business size on the quality of MSMEs financial reports, using the financial reporting theory according to PSAK 1. This study employs a quantitative descriptive design. The research findings indicate that accounting understanding and business size significantly influence the quality of financial reports.

**Keywords: Accounting Understanding; Business Size; Financial Report Quality**

### A. Introduction

Economic activities serve as a means to fulfill the needs of the local community and enhance their quality of life. Economic development and expansion ensure that individuals' basic needs are met. To address their most fundamental requirements, community members must be able to consider existing commercial possibilities. This might be good for the economy.

Micro, small, and medium-sized enterprises (MSMEs) include a wide range of private sector economic

actions. The proliferation of MSMEs in Indonesia has contributed significantly to the country's economic development. There wouldn't be any economic growth, progress, or the birth of new economic sectors without the contributions of micro, small, and medium firms.

Sidoarjo Regency is home to a significant number of Indonesia's micro, small, and medium-sized enterprises. There were more than 212,000 MSMEs in Sidoarjo Regency in 2019, distributed across 18

districts, with the highest concentration of MSMEs in the Waru District, as stated by the Regent of Sidoarjo, Hudiono (Taufik, 2021). In the current year of 2023, there are 150,781 MSMEs in Sidoarjo Regency, and there are 8,492 MSMEs registered in the Waru District according to the *DITAKOPUM* (Digital Cooperative and Micro Business Data) application of Sidoarjo Regency. Based on this data, there has been a decrease of 29% in MSMEs in Sidoarjo Regency. This decline is attributed to the impact of Covid-19.

The Covid-19 virus pandemic that emerged in early 2020 drastically changed the situation for MSMEs. The Covid-19 epidemic has been ongoing in Indonesia for 2 years. MSMEs have suffered sales losses due to declining revenues and income for business operators. The decrease in extracurricular activities, erosion of trust, and scarcity of raw materials have all contributed to these issues (Nabilah et al., 2021).

The impact of COVID-19 on MSMEs in Sidoarjo Regency has experienced an average monthly

decline of 61%, caused by the aspect of business profits (Her Wahyutomo, 2022). Examining financial reports can assist in devising strategies and problem-solving as you plan to reverse this trend.

One of the challenges faced by small and medium enterprises (SMEs) is effectively managing their finances. Micro, small, and medium enterprises rely on competent accountants for trustworthy financial management and reporting. Bookkeeping involves the systematic recording of economic transactions, including sales and purchases, as well as assets and liabilities, equity, and income. The data and information require meticulous, accurate, and organized arrangement (UNDANG-UNDANG REPUBLIK INDONESIA, 2008).

Accurate accounting information, such as that provided by financial reports, is crucial to a company's success. Managers of micro, small, and medium-sized companies (MSMEs) may use the accounting information presented in financial reports to support strategic choices like pricing and market

growth. To qualify for government subsidies and extra loans from creditors like banks, small and medium-sized businesses (MSMEs) must make their financial information public. Unfortunately, accurate financial records are still lacking at many MSMEs. Because of this, getting further funding from financial institutions is challenging. For micro, small, and medium-sized firms (MSMEs), preparing financial reports is essential for many reasons beyond merely securing financing. SMEs claim that financial reporting adds unnecessary costs and causes unnecessary delays to their operations. Despite fierce market competition, financial reports show that MSMEs must work hard to develop company strategy and objectives. Micro, small, and medium-sized businesses (MSMEs) need the ability to compete in many markets and swiftly adjust to changing conditions in order to succeed in today's global economy.

One of the many things that can enhance the reliability of financial reporting is having a strong understanding of accounting

concepts. You have a working knowledge of accounting if you are conversant with the procedures involved in producing financial statements in compliance with applicable requirements. Better financial reporting is a product of better comprehension. Knowing the accounting system is not sufficient to create good financial reports; you also need to adopt a mindset that financial reporting is objective and must be done in accordance with regulations.

The size of the company under investigation also raises concerns. The size of a company can be estimated in various ways, such as based on its total assets, number of employees, or total revenues over a specific period. The size of an organization serves as a proxy for market health. Good and accurate financial reporting is crucial for larger companies to continue their operations, and effective financial management is vital for small businesses to grow and expand into new markets. The likelihood of a company surviving long-term is very low if its financial transactions are not recorded somewhere. Therefore, the

size of a company reflects the quality of the financial reports presented.

Good financial reporting helps business owners monitor their revenues and expenses, manage their assets and liabilities, and utilize their resources more wisely. Its benefits extend far beyond mere interactions with financial institutions. Despite the widespread adoption of GAAP, many organizations and individuals continue to struggle to keep reliable financial records (GAAP).

Accounting tasks and monetary transactions ultimately lead to financial statements. To assess the credibility of financial reports, expert knowledge in accounting is crucial. High-quality financial statements are a form of financial management responsibility, as their interpretation of financial accounts informs business decisions. The information provided must be of high quality based on its characteristics to enhance decision-making quality. This study is apart from others like it since it focuses on MSMEs in Sidoarjo rather than large corporations. This is being done in the wake of the devastating effects of the Covid-19 outbreak on

the economy. Currently, every type of company is being tested to see whether they can weather the storm or are forced to close their operations. The strength of a company can be safeguarded, among other factors, through the accuracy of its financial records. This study is intended as an evaluative and mindset-changing material for all business participants, emphasizing the importance of proper financial reporting to monitor operational costs by recording all income and expenses. This ensures that initiatives in running the business can continue and the business can operate smoothly, continuing to move forward.

Given the context above, it must be clear that financial reports play a crucial role in managing a company. There are a number of elements that may help improve the accuracy and reliability of financial reporting. With this in mind, the author aimed to conduct research on the **"Effect of Accounting Understanding and Business Size on the Quality of Financial Reports of Micro, Small, and Medium**

## **Enterprises (MSMEs) in Sidoarjo Regency."**

### **B. Literature Review**

The financial accounts of a firm may tell you a lot about how well it is doing financially. Financial reports are essential for many users because of the information they provide on a company's financial health, performance, and cash flow (PSAK 1 PENYAJIAN LAPORAN KEUANGAN, 2021, p. 14).

Accounting offers a valuable set of information for making economic choices and serves as a repository for various related knowledge (Minahasa, 2020). Accounting understanding can be defined as information within financial reports. Within financial reports, there is a process of recording transactions that have occurred, processing, classifying, and presenting transaction data to be used for various financial activities within a company.

The accounting cycle consists of the steps taken by an organization to track and record its financial dealings (Farha et al., 2022).

Accounting is the process through which business transactions are managed and translated into accounting information. The presence of an accounting cycle makes it easier for a company to assess its current state. The accounting cycle consists of opening entries, journalizing transactions, publishing them to the general ledger, running a trial balance, making any necessary adjustments, calculating working capital, generating financial statements, and closing the books. High-quality financial statements require comprehensive and accurate accounting at every stage of the accounting cycle.

Company size is a metric used to evaluate businesses by considering factors such as the number of employees, annual revenue, and market capitalization (Suastini et al., 2018). Company size can impact the reliability of financial reports and is crucial for understanding a company's profitability. There are various company size categories, including micro, small, medium, and large enterprises (UNDANG-UNDANG

REPUBLIK INDONESIA, 2008, n. 20).

Enterprises that are considered 'micro,' 'small,' or 'medium' are businesses operated by individuals, groups, small enterprises, or households. According to the World Trade Organization (WTO), Indonesia is classified as an emerging country. As MSMEs are primary economic actors and have become even more crucial since the economic crisis caused by COVID-19, they have the potential to alleviate poverty and unemployment in Indonesia (Siagian Ade Onny dan Indra Natal, 2019). With this in mind, MSMEs can be established as the main foundation of the economic sector.

Micro, small, and medium-sized businesses (MSMEs) constitute the lifeblood of local, regional, and national economies. Due to their ability to generate significant economic activity, new jobs, local economic growth, community empowerment, new markets, innovation, and foreign currency earnings, small and medium-sized firms (SMEs) play a crucial role in the national economy. Additionally,

SMEs have a significant impact on rural economic development by providing job opportunities and income to the impoverished population, promoting wealth distribution, and mitigating the adverse effects of poverty.

SARS-CoV-2 is the causative agent of Coronavirus illness 2019 (COVID-19), an infectious illness caused by a coronavirus. COVID-19 can lead to high fever, dry cough, and respiratory issues. Many things changed for the worse due to the outbreak of the coronavirus in 2019 (Covid-19). The economic crisis created by the COVID-19 epidemic has affected businesses of all sizes, but particularly those with less than 500 workers. Countries whose economies rely significantly on MSMEs are particularly vulnerable to the effects of COVID-19's presence (Her Wahyutomo, 2022).

### **Hypotheses**

**H1 : Accounting Understanding has a significant effect on the quality of financial reports**

**H2 : Business Size has a significant effect on the quality of financial reports**

**H3 : Accounting Understanding and Business Size have a positive and significant effect on the Quality of Financial Reports of Micro, Small, and Medium Enterprises (MSMEs) in Sidoarjo Regency.**

**C. Research Method**

This study combined a quantitative strategy with a descriptive methodology. Specifically, the 8,492 micro, small, and medium-sized enterprises (MSMEs) in the Waru District of Sidoarjo Regency that were registered with DITAKOPUM (Digital Application for Cooperative and Micro Enterprise Data) in June 2023 made up the population used for this analysis. A total of 99 MSME business owners in the Waru District were included in the study's sample. Questionnaires and in-depth interviews were used to compile the data. Descriptive statistics, tests of instruments, tests of classical

assumptions, and hypothesis testing were all used to examine the data.

**D. Results and Discussion**

**Descriptive Statistical Analysis**

	Statistics		
	Accounting _Undestan ding	Business _Size	Quality _Lk
N Valid	99	99	99
Missing	0	0	0
Mean	18.1212	21.7374	19.3333
Std. Deviation	2.98388	2.21122	3.28261
Minimum	13.00	16.00	12.00
Maximum	25.00	25.00	25.00

From the table in the descriptive analysis, the following results are obtained:

**a. Accounting Understanding**

There were a total of 99 respondents (N), and among them, 25 had the maximum score and 13 had the minimum score from the questionnaire. The mean score was 18.1212 with a standard deviation of 2.98388 from a sample size of 99. A higher median value indicates better data quality than the average in financial reporting. The majority of MSME respondents in the Waru District have a good understanding of accounting.

**b. Company Size**

There were a total of 99 respondents (N), among whom 25 had the maximum score and 16 had the minimum score from the questionnaire. The mean score was 21.7374 with a standard deviation of 2.21122 from a sample size of 99. A higher median value indicates better data quality than the average in financial reporting. Conclusion: The majority of MSME respondents in the Waru District have an appropriate company size.

**c. Financial Report Quality**

There were a total of 99 respondents (N), among whom 25 had the maximum score and 12 had the minimum score based on the filled questionnaires. The standard deviation was 3.28261, with a mean of 19.3333 for a sample size of 99. A higher median value indicates better data quality generally reported in financial statements. The majority of MSME respondents in the Waru District clearly understand the fundamentals of writing financial reports.

**Validity Test**

Using a significance level of 0.05, or 5%, and a total of 99 respondents, the value of the r-table may be calculated as  $N-2 = 99 - 2 = 97$ , or 0.1975. Table 2 displays the results of the validity analysis:

Variable	State ment Item	R- Val ue	R Ta ble	Desc ripti on
Accounting Understand ing	X1.1	0.8 61	0.1 97	Vali d
	X1.2	0.8 74	0.1 97	Vali d
	X1.3	0.7 63	0.1 97	Vali d
	X1.4	0.8 46	0.1 97	Vali d
	X1.5	0.7 94	0.1 97	Vali d
Company Size	X2.1	0.7 38	0.1 97	Vali d
	X2.2	0.7 49	0.1 97	Vali d
	X2.3	0.6 05	0.1 97	Vali d
	X2.4	0.7 1	0.1 97	Vali d
	X2.5	0.5 67	0.1 97	Vali d
Financial Report Quality	Y1.1	0.6 68	0.1 97	Vali d
	Y1.2	0.7 9	0.1 97	Vali d
	Y1.3	0.7 9	0.1 97	Vali d



Y1.4	0.749	0.1975	Valid
Y1.5	0.501	0.1975	Valid

All statement items in the Accounting Knowledge, Business Size, and Financial Report Quality variables pass the validity test at the 0.05 level, as shown in Table 2. This is because all statement items have  $r\text{-value} > r\text{-table}$  or  $r\text{-value} > 0.1975$ . This implies that all statements in the questionnaire for each variable can be used as measuring tools for those variables.

**Reliability Test**

**Table 3.** Reliability Test

Variable	Cronbach's Alpha	N of Items
Accounting Understanding (X1)	0,885	5
Company Size (X2)	0,697	5
Financial Report Quality (Y)	0,737	5

Source: (Processed using SPSS version 26, 2023)

a) Cronbach's Alpha for the five statement items comprising the Accounting Understanding variable (X1) is 0.885, as seen in

the table of reliability test results provided above. Since the Cronbach's Alpha for this variable is more than 0.60, the statements included within it may be relied upon as valid study measuring instruments.

b) Cronbach's Alpha for the Business Size variable (X2), consisting of 5 statement items, is 0.697, as seen in the table of reliability test results provided above. A research instrument and its associated statements are regarded trustworthy if the Cronbach's Alpha for a particular variable is more than 0.60.

c) Cronbach's Alpha for the Business Size variable (X2), consisting of 5 statement items, is 0.697, as seen in the table of reliability test results provided above. over a Cronbach's Alpha of 0.60 indicates a reliable research instrument and supports the validity of the statements made over that threshold.

**Normality Test**

- a. Decisions may be based on the results of a Kolmogorov-Smirnov test for normalcy, which are as follows:
- b. The data in the study follows a normal distribution if and only if

the Significance value is greater than 0.05.

- c. The study data is not regularly distributed if the Significance value is less than 0.05.

**Table 4.** Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		99
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	2.35619696
Most Extreme Differences	Absolute	.058
	Positive	.050
	Negative	-.058
Test Statistic		.058
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

According to Table 4, the Asymp. Sig. (2-tailed) for all study data is more than 0.05, hence the distribution is compatible with normally distributed data.

**Multicollinearity Test**

For the multicollinearity test, the deciding factors are as follows:

- a) There is no multicollinearity if Tolerance is larger than > 0.10 and VIF is less than 10.00.

- b) Multicollinearity occurs if the Tolerance value is less than 0.10 and the VIF value is larger than > 10.00.

**Table 5.** Multicollinearity Test

Model	Coefficients		Standardized Coefficients	Tolerance	VIF
	B	Beta			

1 (Constant)	-	2.		-	.		
	4.	55		1.	0		
	27	5		6	9		
	5			7	8		
				3			
Accounting_	.4	.0	.402	5.	.	.94	1.
Understandi	42	83		3	0	7	0
ng				4	0		5
				1	0		6
Business_Siz	.7	.1	.483	6.	.	.94	1.
e	17	12		4	0	7	0
				1	0		5
				7	0		6

a. Dependent Variable: Kualitas\_Laporan keuangan

The value of the Accounting Knowledge variable (X1) is known to be 0.947 in the aforementioned Table 5, as is the value of the Business Size variable (X2). All variables have values more than or equal to 0.10, according to the Tolerance output. Meanwhile, both Accounting Knowledge (X1) and Company Size (X2) have VIF values of 1.056. As a result, all of the variables have values below 10.00. Since all of the Tolerance values and VIF values are larger than 0.10 and less than 10.00, respectively, we can say that multicollinearity is not present.

### Heteroskedasticity Test

Heteroskedasticity occurs when the variance of residuals is not equal. The decision Criteria for the

Glejser Heteroskedasticity Test are as follows:

- a) If the Sig. value is more than 0.05, then heteroskedasticity does not exist.
- b) Heteroskedasticity is present if and only if the Sig. value is less than 0.05.

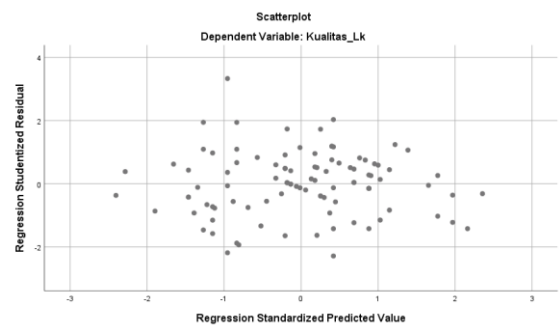


Figure 1. Heteroskedasticity Test Scatterplot

What can be seen in Figure 1 is:

- a) Around the number 0, the data points are dispersed above and below the line.
- b) The data does not exclusively cluster at the top or bottom.
- c) There is no discernible broadening, narrowing, and expansion of the data point dispersion.

Based on the statement above, this model is a very good candidate for regression analysis, given the absence of heteroskedasticity evidence.

**Table 6.** Heteroskedasticity Test

Model	Coefficients <sup>a</sup>				Sig.
	Unstandardized Coefficients	Standardized Coefficients	T		
1 (Constant)	3.701	1.581	2.341	.021	
Accounting_Knowledge	-.058	.051	-1.132	.260	
Business_Size	-.038	.069	-.057	.587	

The Accounting Knowledge variable has a Sig value as seen in Table 6 of the heteroskedasticity test. With a p-value of 0.260, we can disregard heteroskedasticity. There is a Sig value for the Business Size variable. Since 0.587 is greater than 0.05, we can say that there is no heteroskedasticity.

**Multiple Linear Regression Analysis**

**Table 7.** Multiple Linear Regression Analysis

Model	Coefficients <sup>a</sup>				Collinearity Statistics
	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	

	B	Std. Error	Beta		Tolerance	VIF
(Constant)	-4.275	2.555		-1.678		
Accounting_Knowledge	.442	.083	.402	5.300	.947	1.056
Business_Size	.717	.112	.483	6.400	.947	1.056

Multiple linear regression yields the following findings, as shown in Table 7, based on the aforementioned calculations:

From the aforementioned SPSS result, we can derive the following regression equation:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

$$KL = -4,275 + 0,442 \text{ Accounting Knowledge} + 0,717 \text{ Business Size} + \epsilon$$

It may be deduced from the regression equation that:

a) Constant ( $\alpha$ )

Quality of Financial Reports (Y) equals -4.275 when both Business Size (X2) and Understanding of Accounting (X1) are 0.

b) Accounting Understanding (X1)

An increase of one unit in the Quality of Financial Reports (Y) variable is the consequence of an increase of 0.442 units in the Accounting Understanding (X1) variable. This positive impact size suggests a link between X1 (accounting knowledge) and Y (the quality of financial reports) exists.

c) Business Size

The value of the Quality of Financial Reports (Y) variable rises by 0.717 for every one-unit increase in Business Size (X2). This positive number suggests that the two variables, Business Size (X2) and Quality of Financial Reports (Y), are positively correlated and operate in the same direction.

**Partial T-Test**

**Table 8.** Partial T-Test

Model	Coefficients <sup>a</sup>			
	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
				Collinearity Statistics

	B	Standard Error	Beta	t	Sig.	Partial	Tolerance	VIF
(Constant)	-2.475	1.069		-2.313	.023			
Accounting_Understanding	.442	.083	.402	5.341	.000	.947	.053	1.876
Business_Size	.717	.141	.483	5.089	.000	.947	.053	1.876

a. Dependent Variable: Quality\_of\_Financial\_Reports

1) Testing the First Hypothesis (Ha1)

The estimated t value of 5.341 > t table 1.98498 and the resulting Sig. value of 0.000 < 0.05 indicate a significant relationship between Accounting Knowledge (X1) and Business Size (X2) and the Quality of Financial Reports (Y). In light of these results, we adopt Ha1, which suggests that X1 (Accounting Understanding) has a partial influence on Y (Quality of Financial Reports). The magnitude of the relationship

between Accounting Knowledge (X1) and Financial Report Quality (Y) is 0.442.

2) Testing the Second Hypothesis (Ha2)

The estimated t value of 6.417 exceeds the t table 1.98498, yielding a Sig. value of 0.000 0.05 for the influence of Business Size on the Quality of Financial Reports (Y). It follows that Ha2 is acknowledged, suggesting that X2 (business size) has a partial influence on Y (the quality of financial reports). For Y, the magnitude of the impact of Company Size (X2) on Financial Report Quality (Y) is 0.717.

**Simultaneous F Test**

**Table 9.** Simultaneous F Test

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	511.937	2	255.968	45.166	.000 <sup>b</sup>
Residual	544.063	9	5.667		
Total	1056.000	9			

a. Dependent Variable: Quality of Financial Reports

b. Predictors: (Constant), Business Size, Accounting Understanding

Table 9 reveals that the independent variables' F test had a significant result (F = 45.166, P 0.0001). The calculated F value (95%; 3-1: 99-2-1) at the = 0.05 level is 3.09. The estimated F value (45.166) is greater than the tabulated F value (3.19) and the P value (0.000) is less than 0.05, hence the null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted. Therefore, it is reasonable to infer that the Quality of Financial Reports (Y) is jointly influenced by the Accounting Knowledge variable (X1) and the Company Size variable (X2).

**Coefficient of Determination Test**

**Table 10.** Coefficient of Determination Test

Model Summary <sup>b</sup>					
Model	R	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.696 <sup>a</sup>	.485	2.38061		

a. Predictors: (Constant), Business Size, Accounting Understanding

b. Dependent Variable: Quality of Financial Reports

Adjusted R Square = 0.474, as shown in Table 4.11, indicates that Accounting Knowledge and Business Size each contribute 47.4% to the overall variance in Financial Statement Quality (Y), while other unmeasured factors contribute 52.6%. This means that the differences in the Accounting Knowledge (X1) and Business Size (X2) variables account for 47.4% of the total variance in Financial Statement Quality (Y).

## Discussion

### **The Effect of Accounting Understanding on the Financial Statement Quality of Micro, Small, and Medium Enterprises (MSMEs) in Sidoarjo Regency**

An person is deemed to have a grasp of accounting (Financial Accounting Standards) if they can perform the accounting process from beginning to end, generating financial statements in line with FAS (Abdallah & Maryanto, 2020). Financial assessment, bookkeeping, and reporting can all be performed by

someone with limited accounting knowledge. Those experienced in the field will demonstrate diligence while leveraging their expertise.

Creating a well-prepared financial statement requires an understanding of accounting, which is why accounting comprehension holds significant importance (Farha et al., 2022). Improved financial reporting directly stems from a more advanced accounting knowledge. On the other hand, inadequate accounting comprehension can lead to poorer quality of financial reporting.

A strong understanding of both accounting theory and practice is a prerequisite for producing high-quality financial statements, which in turn significantly impacts the credibility of MSMEs. Gaining an understanding of accounting is important for everyone interested in helping MSMEs expand and prosper. High-quality financial statements may be helpful tools for analysis and decision-making. Accounting knowledge has been demonstrated to significantly improve the credibility of financial statements.

The Effect of Business Size on the Quality of Financial Statements in MSMEs in Sidoarjo Regency

Business size serves as an indicator of a company's size (Siti Fithorah, 2019). The complexity and volume of transactions conducted by micro, small, and medium-sized enterprise (MSME) operators might be influenced by the size of their businesses. A growing business offers more opportunities for MSME operators to acquire the financial management skills necessary to address the challenges and complexities associated with evolving financial transactions.

The capital used, total assets owned, total revenue, and market capitalization are indicators of a company's scale, which may have an effect on the reliability of financial statements. tiny, small, and medium-sized businesses (MSMEs) are more likely to have high-quality financial statements than tiny MSMEs. The reason for this is that increased sales volume has a positive effect on the credibility of financial accounts.

Micro, small, and medium-sized businesses (MSMEs) have a size-

related impact on the quality of their financial statements. Micro, small, and medium-sized businesses (MSMEs) have a lot riding on their size when it comes to their ability to succeed and expand. Knowing the company's size is valuable as it provides a benchmark for evaluating its success (Suastini et al., 2018). The profitability of a company and the reliability of its financial statements are affected by its size. Law number 20 of 2008 provides guidelines for defining a "large" enterprise. This study confirms previous findings that larger enterprises tend to have higher-quality financial statements.

**The Effect of Accounting Understanding and Business Size on the Quality of Financial Statements of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Sidoarjo Regency**

A strong understanding of accounting theory and practice is a prerequisite for producing high-quality financial statements, which in turn significantly impacts the credibility of MSMEs. If you want to help out with the expansion and development of MSMEs, you need to



learn the ins and outs of accounting. High-quality financial statements can serve as valuable resources for decision-making and measuring company performance.

Micro, small, and medium-sized businesses (MSMEs) issue financial statements that are greatly impacted by the size of the organization. The success and growth of MSMEs greatly depend on the magnitude of their business size. One of the benefits is that business size serves as a measure for evaluating the company (Suastini et al., 2018). The profitability of a company and the reliability of its financial statements are affected by its size. The Law No. 20 of 2008 provides guidelines regarding the definition of a "large" enterprise. It has been shown that accounting expertise and company size considerably influence the quality of financial statements.

### **E. Conclusion**

Consisting of the conclusion of An uncontrolled factor The quality of financial statements is significantly affected by accounting knowledge. There is a statistically significant

relationship between Business Size and Financial Statement Quality. Financial Statement Quality is significantly influenced by both Accounting Knowledge and Business Size.

### **Limitation and Sugestions**

Those SMEs who don't keep financial records may be hesitant to take part in the survey because of it. Identification cards or research letters can be obtained from the Cooperatives and Micro Enterprises Office for use in the field. Subsequent researchers have the opportunity to expand the research variables. By examining previously unexplored factors, we can explore new and interesting aspects. For example, SME Financial Accounting Standards knowledge, Human Resources, Accounting Information Systems, and so forth. There are SMEs that are unwilling to become respondents for reasons that are not significant. Some SMEs are difficult to request documentation from, resulting in limitations in documentation in this research.

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