

# The Role of Accounting Understanding in Preparing Financial Reports Based on EMKM Financial Accounting Standards to Increase Business Income

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## Abstract

*The growth of MSMEs in Indonesia is currently experiencing rapid changes. However, many MSME players, including those in Alang - Alang Lebar District, Palembang, South Sumatra, do not fully understand the importance of accounting understanding and preparing financial reports based on EMKM Financial Accounting Standards in their business. This research aims to assess how accounting understanding influences the preparation of financial reports based on EMKM Financial Accounting Standards and subsequently has an impact on MSME business income in Alang-Alang Lebar, Palembang. The research focuses on MSMEs in the area, with data collected from 100 samples through questionnaires. Data analysis using SPSS 27.00 using t test and Path Analysis. The findings show that accounting understanding has a positive effect on preparing financial reports based on EMKM Financial Accounting Standards. Understanding accounting also has a positive effect on business income, both directly and indirectly through preparing financial reports based on EMKM Financial Accounting Standards. Apart from that, preparing financial reports based on EMKM Financial Accounting Standards has a direct effect on business income. These findings can provide valuable insight for MSMEs in developing strategies, especially in increasing understanding of accounting in order to improve the preparation of financial reports so that they can increase business income for MSMEs in Alang - Alang Lebar.*

## Abstrak

Pertumbuhan UMKM di Indonesia saat ini tengah mengalami perubahan yang pesat. Namun, banyak pelaku UMKM, termasuk di Kecamatan Alang-Alang Lebar, Palembang, Sumatera Selatan, yang belum sepenuhnya memahami pentingnya pemahaman akuntansi dan penyusunan laporan keuangan berdasarkan Standar Akuntansi Keuangan EMKM dalam usahanya. Penelitian ini bertujuan untuk mengkaji bagaimana pemahaman akuntansi memengaruhi penyusunan laporan keuangan berdasarkan Standar Akuntansi Keuangan EMKM dan selanjutnya berdampak pada pendapatan usaha UMKM di Alang-Alang Lebar, Palembang. Penelitian difokuskan pada UMKM di daerah tersebut, dengan data yang dikumpulkan dari 100 sampel melalui kuesioner. Analisis data menggunakan SPSS 27.00 dengan menggunakan uji t dan Analisis Jalur. Hasil penelitian menunjukkan bahwa pemahaman akuntansi berpengaruh positif terhadap penyusunan laporan keuangan berdasarkan Standar Akuntansi Keuangan EMKM. Pemahaman akuntansi juga berpengaruh positif terhadap pendapatan usaha, baik secara langsung maupun tidak langsung melalui penyusunan laporan keuangan berdasarkan Standar Akuntansi Keuangan EMKM. Selain itu, penyusunan laporan keuangan berdasarkan Standar Akuntansi Keuangan EMKM berpengaruh langsung terhadap pendapatan usaha. Temuan penelitian ini dapat memberikan masukan yang berharga bagi pelaku UMKM dalam menyusun strategi khususnya dalam meningkatkan pemahaman akuntansi guna meningkatkan penyusunan laporan keuangan sehingga dapat meningkatkan pendapatan usaha bagi UMKM di Alang-Alang Lebar.

## 1. INTRODUCTION

MSMEs play an important role as drivers of economic recovery in Palembang City. This can be seen from the increase in turnover of micro and small businesses in the city which has increased every year, from IDR 13 trillion in 2019 to IDR 17 trillion in 2020 (Datanesia, 2022). Even so, the contribution of the trade sector to Palembang City's GRDP is only 13.9%, which is considered very low compared to other sectors that contribute to Palembang City's GRDP. In fact, based on data from the Investment Coordinating Board (BKPM), the amount of foreign investment in the last five years (2017-2021) reached US\$ 161 million, down 37.2% compared to the previous five years (2012-2016), which was US\$ 257 million.

The Palembang City Cooperatives and Micro, Small, and Medium Enterprises (MSMEs) Service explained that there are still three main hindrances for MSMEs, namely capital, marketing, and technology (Oktareza, 2020). The founder of the Barisan Usaha Rakyat Foundation (BARA), Rafif Rziqullah, mentioned that another factor that hinders the development of the MSME sector is the low financial literacy among business actors. Business actors often do not separate personal accounts and business accounts (Wulandari, 2022). A similar situation also occurs in Palembang City, many MSMEs do not make financial reports or even do not keep records at all. Usually, MSMEs in Palembang City only calculate profits from incoming money and do not separate personal financing from business financing (Kelara & Suwarni, 2020).

In order to respond to the above in order to support the preparation of good financial reports in Palembang City MSMEs, in 2023 the Palembang City Cooperative and MSME Service has held training that aims to improve skills in managing and preparing financial reports in accordance with applicable accounting standards (Dinas Koperasi & UMKM Kota Palembang, 2023). With a good understanding of the general provisions for preparing financial reports, it is hoped that cooperatives and other MSMEs in Palembang City can meet accounting requirements and improve their financial management.

SAK EMKM is expected to assist entities in making the transition from cash-based financial reporting to accrual-based financial reporting. With the issuance of SAK EMKM, it is hoped that MSME players can more easily prepare financial reports and become one of the drivers of financial literacy for MSMEs in Indonesia so as to gain wider access to financing from the banking industry. financing from the banking industry [3]. SAK EMKM is effective since January 1, 2018.

Most entrepreneurs do not carry out accounting records, even though regulations encourage entrepreneurs to compile financial reports [4]. The preparation of these financial statements is often not recorded by entrepreneurs due to low education and lack of understanding of Financial Accounting Standards (SAK). Even though this is very necessary for entrepreneurs so that there are no data irregularities, and in order to know the profits / losses obtained. For MSME players who do not yet have an understanding of accounting, preparing financial statements using the basic accounting equation has advantages and is simpler and easier to process, so they can more easily understand it. Therefore, financial statements can be said to be relevant criteria in decision making if the representation is correct and free from errors. decision making if the representation is correct and free from material error, so that it can be compared between periods with entities in evaluating the position of the entity. compared between periods with entities in evaluating financial position and performance, as well as parties who need it. financial position and performance, and the parties who need it can more easily understand it.

The purpose of financial statements based on SAK EMKM is to include information about the financial position and performance of an entity that is useful for users of financial statements in making economic decisions. In addition, financial statements also aim to show management's accountability for the resources that have been entrusted. Financial statements are not only about results but also presented comparatively.

A summary of accounting policies and additional information/details of specific items that are useful to users. Accounting reports are usually inserted because these reports are useful in providing information to users or users of reports, which can be used as a consideration for the decision-making process later. Accounting reports are also commonly known as financial statements. Financial statements are the most important element for entrepreneurs so that the process must be done carefully, thoroughly and should not be careless.

In the entity preparing financial statements using the accrual basis. Items such as assets, liabilities, equity, income and expenses can be recognized on an accrual basis when they meet the definition / recognition criteria for each item. The function of financial statements is to provide reports that are financial in nature and useful in making decisions for economic entities. Financial management plays an important role in the process of improving the quality of MSMEs because there are still many entrepreneurs who have not made records in the process of income and expenses. This results in MSME

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owners having difficulty knowing the profit (net profit) of their business, so that if they apply for a loan to the bank for business capital, it will be complicated, because MSME owners usually only record income and expenses only by doing bookkeeping. When preparing these financial statements, management uses SAK-EMKM in making an assessment of the entity's ability to continue its business in the future. The key to success in running a business is to apply financial reports. In writing the preparation of financial statements this is also very influential on financial transparency and accountability.

The effect of transparency in the preparation of financial statements is a behavior that will provide openness to all interested parties such as the public, entrepreneurs and others. Transparency is also an openness to all actions and policies taken by entrepreneurs. This financial transparency is very important which aims to increase trust because entrepreneurs who are open in conveying financial information to parties who are interested in the company.

Open in conveying financial information to interested parties is more trusted than closed entrepreneurs and can also build a professional attitude. The implementation of the transparency process in financial reporting will arise when all members of the organization have a strong commitment to carry it out. The effect of this accountability must always be accounted for by what will be reported in the preparation of financial reports, because with this, the results will be maximized. Accountability also has another meaning, namely an instrument that must be accounted for on the concept of success or failure in the main task in the function of the financial statements carried out. The point of this meaning is a process of a person or organization in making financial reports, then the task is their responsibility and if the financial statements are carried out. the task is his responsibility and if the financial statements produced have produced the real situation, then the financial statements produced by the organization must be accounted for. financial statements have produced the actual situation, then the financial statements can be a reference for those who need it.

Can be a reference for parties in need, such as the government, employees, investors and the public. There needs to be a regulation or standard that regulate the financial statements of the business so that they can be accounted for so that later the report can be used in general by the government, employees, investors and the public. later the report can be used in general by all parties. In help realize the optimization of the accountability of a business, the Indonesian Accounting Association (IAI) has issued SOPs. Indonesia (IAI) has issued SAK-EMKM and IAI is also committed to helping advance the country's economy. help advance the country's economy.

Alang-Alang Lebar is a sub-district in Palembang City, South Sumatra, Indonesia, with a population of 96,757. This new area is experiencing rapid development in Palembang City. Presently, nearly all parts of Alang-Alang Lebar District show potential, with Talang Kelapa Village being the most promising area. However, based on the researcher's initial survey, the income of MSMEs in Alang-Alang Lebar District is still relatively unstable, as evidenced by the unstable sustainability of businesses in several places in the area, such as many businesses that have closed even though they have only been established for a few months. This is very unfortunate considering that economic activities in the Alang Alang Lebar District are dominated by the trade and service sectors (BPS Kota Palembang, 2023).

Capital problems are one of the obstacles to the smooth running of MSME businesses. MSMEs need a lot of capital to be able to turn their capital into income. This capital problem cannot be resolved because credit applications to banks cannot be submitted if the business owner does not have proper financial reporting and MSMEs have not implemented financial administration and have not separated personal finances from business finances (Fiani & Opti, 2022). If a business has regular and structured financial reports, this is an important point for accepting a credit application. The bank will assess whether the business is growing, developing, and needs financing through these financial reports. Therefore, to help MSMEs meet their financial reporting needs, the Financial Accounting Standards for Micro, Small and Medium Entities (SAK EMKM) have been prepared and approved by the Financial Accounting Standards Board of the Indonesian Institute of Accountants (DSAK IAI) in 2016, and came into effect on January 1, 2018.

Financial reports that are optimal and in accordance with EMKM standards should be prepared by human resources who have sufficient knowledge in understanding accounting (Mutiari & Yudiantara, 2021). Susilowati et al., (2021) stated that understanding accounting has a significant positive effect on the application of EMKM SAK in the financial reports of MSMEs in the city of Surabaya. Based on the phenomena that occurred and the limitations of previous research, researchers were motivated to empirically test whether accounting understanding influences the preparation of financial reports based on EMKM Financial Accounting Standards by adding the variable of increasing business income.

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2. METHODS

This study adopts quantitative research utilizing primary data collection methods through questionnaires. The research focuses on MSMEs in the Alang – Alang Lebar District, Palembang City, South Sumatera. Given the lack of available data, the exact population size is unknown. For sampling, a nonprobability method is employed, specifically accidental sampling. According to Roscoe (1982); (Mamosey et al., 2022) in their book on Research Methods For Business, they recommend that the sample size should be at least 10 times the number of variables under study. Therefore, this study requires a minimum sample of 50 respondents (5 variables multiplied by 10). To ensure an adequate response rate, 100 questionnaires are distributed, with the assumption that data analysis can proceed if more than 50 questionnaires are returned.

The variables examined in this research are Accounting Understanding (X), Preparation of Financial Reports Based on EMKM Financial Accounting Standards (Y) and Business Income (Z), and each variable is measured on a 1 - 5 Likert scale. Where the operational dimensions of the variables used in Accounting Understanding (X) are understanding of accounting transactions, the existence of documentation for each transaction, understanding the stages of preparing financial reports, understanding accounting records, understanding the preparation of financial reports, and being able to prepare financial reports according to accounting standards (Parhusip & Herawati (2018); Lestari (2021)). The measurement of Preparation of Financial Reports Based on EMKM Financial Accounting Standards (Y) is based on (Mustafira, 2021) which are the classification of real accounts, classification of nominal accounts, recording transactions, preparation of financial reports, benefits of financial reports, accuracy of data used, consistency in preparing reports, and conformity with transactions. Meanwhile, the measurement of Business Income (Z) are elements of income, sources of income and costs.

The connection among variables in this study is depicted using a conceptual framework, which is employed to develop hypotheses in this investigation, as depicted in the accompanying diagram.

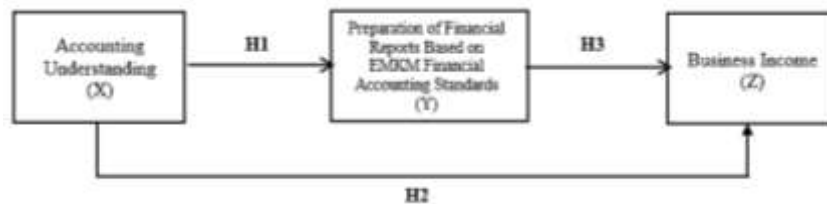


Figure 1. Research Process Design

The variables examined in this study include Accounting Understanding (X), Preparation of Financial Reports Based on EMKM Financial Accounting Standards (Y) and Business Income (Z), each assessed using a 1 - 5 Likert scale. The hypothesis for this research can be stated as follows:

H1: Accounting Understanding has a positive effect on Preparation of Financial Reports Based on EMKM Financial Accounting Standards

H2: Accounting Understanding has a positive effect on Business Income

H3: Preparation of Financial Reports Based on EMKM Financial Accounting Standards has a positive effect on Business Income

Then data analysis method employed in this study involves conducting a partial significance test (t-test) to assess the validity of the hypotheses, followed by Path Analysis for further analysis. In Path Analysis, the model comprises two equations, which can be outlined as follows.

Structural Equation 1:

$$Y = pYX + e_1 \tag{1}$$

Structural Equation 2:

$$Z = pZX + pZY + e_2 \tag{2}$$

Where:

X = Accounting Understanding

Y = Preparation of Financial Reports Based on EMKM Financial Accounting Standards

Z = Business Income

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The next step to complete the structural equation is to calculate the Path Coefficient. The path coefficient can be calculated using the formula (Dewi, 2023):

$$e1 = \sqrt{1 - R^2}$$

$$e2 = \sqrt{1 - R^2}$$

### 3. RESULTS AND DISCUSSION

#### 3.1 Results of Partial Significance (t-test)

The t-test aims to assess the hypothesis in this study, in both Equation (1) and Equation (2). The examination employs a significance level of 0.05. In Equation (1), the t table value is calculated with df = 98 (df = 100 - 1 - 1), and in Equation (2), the t table value is computed with df = 97 (df = 100 - 2 - 1). The outcomes of the t-test are displayed in Table 1 and Table 2 as outlined.

Table 1 shows the influence of Accounting Understanding on Preparation of Financial Reports Based on EMKM Financial Accounting Standards. While the results of the t-test in Equation 2 can be seen in Table 2. Table 2 shows the results of the test given in Equation 2 that shows the influence of Accounting Understanding and Preparation of Financial Reports Based on EMKM Financial Accounting Standards on Business Income.

**Table 1. Partial Significance Test of Equation 1**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	28.003	5.599		5.002	.000
	Accounting Understanding	.392	.074	.514	5.292	.000

a. Dependent Variable: Preparation of Financial Reports Based on EMKM Financial Accounting Standards

Source: IBM SPSS Statistics 27 data processing results

**Table 2. Partial Significance Test of Equation 2**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.640	4.463		2.608	.011
	Accounting Understanding	.311	.060	.467	5.186	.000
	Preparation of Financial Reports Based on EMKM Financial Accounting Standards	.327	.079	.376	4.169	.000

a. Dependent Variable: Business Income

Source: IBM SPSS Statistics 27 data processing results

H1: Accounting Understanding has a positive effect on Preparation of Financial Reports Based on EMKM Financial Accounting Standards

According to Table 1, the computed t value for the Accounting Understanding variable is 5.292, which exceeds the previously obtained t table value of 1.6605 (5.292 > 1.6605), with a significance level of 0.000 < 0.05. This indicates that Accounting Understanding partially has a significant influence to Preparation of Financial Reports Based on EMKM Financial Accounting Standards.

H2: Accounting Understanding has a positive effect on Business Income

Table 2 indicates that the calculated t value for the Accounting Understanding variable is 5.186, which is

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higher than the corresponding t table value of 1.6607 ( $5.186 > 1.6607$ ), with a significance level of  $0.000 < 0.05$ . This means that Accounting Understanding partially has a significant influence on Business Income.

H3: Preparation of Financial Reports Based on EMKM Financial Accounting Standards has a positive effect on Business Income

Table 3 shows that the calculated t value for the Preparation of Financial Reports Based on EMKM Financial Accounting Standards variable is 4.169 which is greater than the t table 1.6607 ( $4.169 > 1.6607$ ) with a significance value of  $0.000 < 0.05$ , which means that the Preparation of Financial Reports Based on EMKM Financial Accounting Standards partially has a significant influence on Business Income.

**3.2 Path Analysis**

**Table 3. Determination Coefficient – Equation 1**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.514 <sup>a</sup>	.264	.255	4.295

a. Predictors: (Constant), Accounting Understanding

Source: IBM SPSS Statistics 27 data processing results

Referring to Table 3, the formula employed to compute the path coefficient is as follows:

$$e1 = \sqrt{1 - R^2} = \sqrt{1 - 0.264} = 0.85790$$

Meanwhile, based on Table 1 and Table 3 above, structural equation 1 can be described as follows:

$$Y = 0.514 X + 0.85790 e_1$$

**Table 4. Determination Coefficient – Equation 2**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.735 <sup>a</sup>	.540	.528	2.979

a. Predictors: (Constant), Preparation of Financial Reports Based on EMKM Financial Accounting Standards, Accounting Understanding

Source: IBM SPSS Statistics 27 data processing results

Referring to Table 4, the formula employed to compute the path coefficient is as follows:

$$e2 = \sqrt{1 - R^2} = \sqrt{1 - 0.540} = 0.67823$$

Meanwhile, based on Table 2 and Table 4 above, structural equation 2 can be described as follows:

$$Y = 0.467 X + 0.376 Y + 0.67823 e_2$$

These structural equations can be clarified through illustration using the Path Analysis structural model as follows.

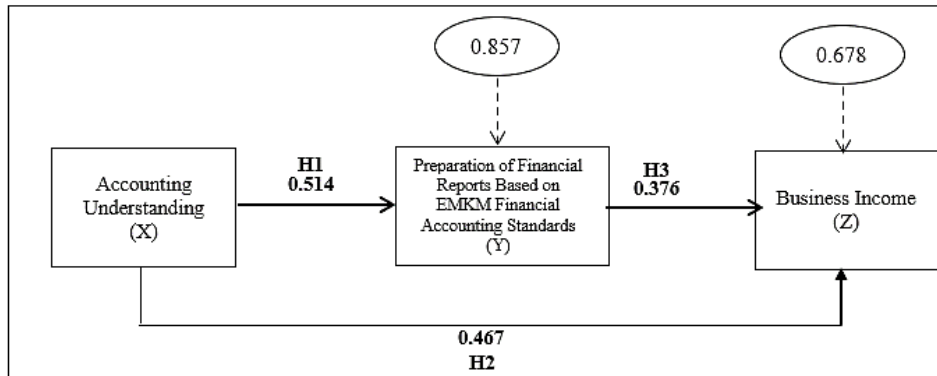


Figure 2. Path Analysis

Subsequently, the table illustrates the direct effect, indirect effect, and path coefficient of each variable that can potentially be influenced.

Table 5. The Direct and Indirect Influence

Variable	Path	The Direct Influence	The Indirect Influence	Total
X on Y		0.514		0.514
Y on Z		0.376		0.376
X on Z		0.467	0.514 x 0.376 = 0.19326	0.66026
e1	0.85790			0.85790
e2	0.67823			0.67823

Source: Primary data processed by SPSS

a) **Accounting Understanding on Preparation of Financial Reports Based on EMKM Financial Accounting Standards**

The accounting understanding variable has a statistically significant positive impact on preparation of financial reports based on EMKM Financial Accounting Standards. The direct effect coefficient is 0.514, with a significance level of 0.000. This indicates that each increase in the adoption of accounting understanding results in a 51.4% increase in financial reports based on EMKM Financial Accounting Standards. Adopting an understanding of accounting in MSMEs can improve the preparation of financial reports based on EMKM Financial Accounting Standards in Alang - Alang Lebar District, Palembang. Adequate knowledge and understanding of accounting, such as knowledge of collecting, recording and summarizing business transactions, will enable business actors to use accounting information in preparing financial reports to run a business. Financial accounting standards for MSMEs SAK EMKM where the preparation is simpler than SAK ETAP, as the previous accounting standard used by MSMEs SAK EMKM is an Accounting Standard intended for business entities that do not have significant public accountability such as MSMEs. The SAK EMKM financial report is easier to understand because it uses a less complicated guide and facilitates the interests of various interested parties (Sariningtyas & Diah, 2011; Setyaningsih & Farina, 2021). This is in line with research A which states that understanding accounting has a significant effect on the application of SAK EMKM to MSMEs in Pekanbaru City.

b) **Accounting Understanding on Business Income**

Based on the partial significance tes of equation 1, the accounting understanding variable has a significant positive effect on business income. The direct effect coefficient is 0.467 and the significance is 0.000. This means that every increase in accounting understanding will increase the business income. Both directly and through preparation of financial reports based on EMKM Financial Accounting Standards mediation. Every increase in the accounting understanding will increase the business income by 46.7%. However, if mediated by preparation of financial reports based on EMKM Financial Accounting Standards, the effect is only 19%, which shows that this result is less significant. In the

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theory of perceived behavioral control, the motivation of MSME players to learn about accounting knowledge will increase the owner's understanding of applying accounting in managing their business (Kustina et al., 2022). In the theory of perceived behavioral control, the motivation of MSME players to learn about accounting knowledge will increase the owner's understanding of applying accounting in managing their business. The better understanding of accounting in business management will make the financial management of an MSME more organized and you will know whether the business is making a profit or a loss. This also allows a business to have structured financial reports and be able to meet the requirements if MSMEs want to borrow capital to increase business income. The deeper and better knowledge of accounting by micro business actors in Batam City will further increase their understanding of running a business, calculating turnover, knowing more about customer characteristics so that the business will also develop better. These results are in line with research by Marlina et al., (2023) which states that the deeper and better knowledge of accounting by micro business actors in Batam City, the more understanding they will have in running a business, calculating turnover, knowing more about customer characteristics so that the business will also develop better.

**c) Preparation of Financial Reports Based on EMKM Financial Accounting Standards has a positive effect on Business Income**

Preparation of financial reports based on EMKM Financial Accounting Standards partially has a positive effect on the business income. The direct influence is 0.376, which shows that every increase in preparation of financial reports based on EMKM Financial Accounting Standards will increase the business income of MSMEs in Alang - Alang Lebar, Palembang by 37.6%. On a small and medium scale business, a business is said to be good when current income is greater than previous income (A. D. Lestari et al., 2019). Furthermore, A. D. Lestari et al., (2019) stated that indicators of success are not only measured from the aspect of income, but there needs to be grouping and measuring activities or transactions as well as summarizing the company's operational transactions. SAK EMKM is structured very simply to make it easier for entities to implement it. The components of the SAK EMKM financial report consist of a balance sheet, profit and loss report and notes to the financial report. According to IAI (2016) in SAK EMKM requires that the minimum financial report consists of a report of financial position at the end of the period; profit and loss statement for the period; as well as notes to financial reports, which contain additions and details of certain accounts which is relevant. In order to increase the added value and productivity of their business, business actors must have knowledge of accounting-based business financial management, and have the will and ability to apply their accounting-based financial management knowledge to run their business. These results support research by Puspitaningtyas (2017) which states that accounting-based financial management is important for business actors (especially MSMEs in Alang – lang Lebar, Palembang), because it will provide benefits for the sustainability of their business and increase competitiveness. Thus, efforts to cultivate accounting-based financial management for MSMEs must continue to be carried out on an ongoing basis so that SMEs can use financial reports as one of the requirements if they want to add capital to increase their business income.

#### **4. CONCLUSION AND RECOMMENDATION**

##### **4.1 Conclusion**

Based on research conducted in Alang–Alang Lebar, Palembang, and South Sumatra, several conclusions can be inferred. First, accounting understanding has a positive significant impact on preparation of financial reports based on EMKM Financial Accounting Standards. Furthermore, accounting understanding has a significant positive effect on business income, both directly and indirectly through preparation of financial reports based on EMKM Financial Accounting Standards mediation. These research findings have the potential to advance current accounting literature and reinforce previous studies on preparation of financial reports based on EMKM Financial Accounting Standards and its determinants. Furthermore, the outcomes of this study offer empirical evidence for academics and establish a foundation for further research.

##### **4.2 Recommendation**

From a practical perspective, the findings of this research can provide valuable insight for MSMEs to be taken into consideration in formulating strategies, especially regarding the preparation of financial

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reports based on EMKM Financial Accounting Standards and MSME business income in Alang - Alang Lebar, Palembang. Researchers suggest that all MSME players should try to improve their understanding of accounting in managing their business. This approach aims to strengthen the preparation of financial reports based on EMKM Financial Accounting Standards and increase MSME business income effectively. In addition, the researcher acknowledged several weaknesses in this research due to the limited coverage of Alang-Alang Lebar District, Palembang, thus limiting the wider application of the findings. Future research is recommended to cover a wider area and utilize a larger sample size to increase the accuracy and relevance of research results.

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