

THE INFLUENCE OF LENGTH OF BUSINESS, UNDERSTANDING ACCOUNTING AND BUSINESS SIZE ON THE QUALITY OF FINANCIAL REPORTS (Case Study In Malioboro Area Of Yogyakarta)

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ABSTRACT

Micro, Small, and Medium-Sized Enterprises (MSME) prepare excellent financial reports that become accurate accounting information for tax reporting, bank credit applications, and economic decisions in business management, such as those regarding pricing and market development. This experiment aims to determine factors that affect the duration of business, comprehension of accounting concepts, and size of the firm in order to assist Micro, Small, and Medium-Sized Enterprises (MSME) in preparing financial reports. All of the MSME actors in the Kota Yogyakarta district served as the research's population. The "Accidental Sampling Technique" was employed for the sampling in this quantitative study. This study used a Likert scale to obtain data from 44 respondents using questionnaires. Regression analysis is the research's analytical method. The findings of this study indicate that the length of the business, the understanding of accounting, and the size of the business all positively impact the quality of the finance report.

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1. INTRODUCTION

Despite being small firms, Micro, Small, and Medium-Sized Enterprises (MSMEs) significantly affect the regional economy. The bulk of economic actors in the Indonesian economy are micro, small, and medium-sized firms, which have proven to be both the country's economic backbone during times of prosperity as well as a dynamic engine of growth after the financial crisis. There are 64.2 million business actors, or 99% of all economic actors, the Ministry of Small and Medium Enterprises claims. In Indonesia, 117 million workers can be absorbed by micro, small, and medium-sized businesses, accounting for 97% of the global workforce absorption capacity (Puspitasari, 2021). MSMEs make up 61.1% of the GDP of the country, whereas major corporations provide 38.9% of the GDP (Ainiyah, 2021).

Accounting data is crucial to a company's success and can serve as a solid foundation for internal use, acquiring bank credit, and tax reporting (Ria, 2018). The Indonesian Accounting Association issued Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) in order to implement them in entities without public accountability. On October 26, 2016, and they went into effect on January 1, 2018. Financial reports that are helpful to consumers of financial reports can be produced with sufficient accounting expertise and understanding. Since a company uses financial reports more regularly the longer it has been in business, the quality of the reports is higher (Erawati, 2021).

Financial reports must meet certain requirements in order to be used in decision-making. They can be summaries of financial transactions that provide accurate and full information or reports on the outcomes of various high-quality accounting activities. Relevant, trustworthy, comparable, and intelligible are qualities of high-quality financial reports (Hidayat, 2018). According to Saputra (2018), the degree to which one can correctly grasp accounting as information and as a process, the accounting process, from recording transactions to creating financial reports, is measured. Comprehension is the act, procedure, or comprehension procedure. This implies that those who understand accounting are intelligent individuals who have a thorough comprehension of the subject. Reporting assets, debt, and capital demonstrates accounting understanding.

The number of years a firm has been in operation affects how businesspeople act and think, changing how they act and think while making decisions. The consistency of financial reports generated

The Influence Of Length Of Business, Understanding Accounting And Business Size On The Quality Of Financial Reports (Case Study In Malioboro Area Of Yogyakarta).

Vinsensius Engelbertus Lado, et.al

984

by MSME players can be directly impacted by an MSME's period of operation. In this situation, the amount of time MSMEs have been in operation may have an impact on how they interpret financial reporting. Young business age among MSME players causes a lack of knowledge and comprehension of financial reports, making it difficult for MSME actors to appropriately create financial reports (Erawati, 2021).

A business's scale refers to the extent to which an entrepreneur can manage it, weighing its amount of resources, personnel, and rate of income growth. The manufacturing industry's size is referred to as the size of the company. The amount of wealth produced over a specific time period and the number of personnel employed both indicate the size of the organization (Iswadi, 2023). This study includes independent variables such as firm size, accounting expertise, and business duration. The dependent variable, meanwhile, is the norm for MSME financial reports in the Malioboro Yogyakarta region. Researchers are attempting to simultaneously and partially explain how the length of operation, accounting knowledge, and firm size affect the caliber of MSME financial reports in the Malioboro district of Yogyakarta.

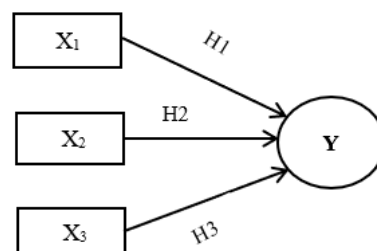


Figure 1. Conceptual Framework

Information :

X1: Length of Business

X2: Understanding of Accounting

X3: Business Size

Y: Quality of Financial Reports

The following formulation of the study hypothesis can be made by the researcher using the framework just described:

H1: The length of a company's existence significantly affects the accuracy of its financial reports.

H2: Accounting knowledge has a big impact on how accurate financial reporting are.

H3: A company's size has a significant effect on the calibre of its financial reporting.

2. METHOD

In order to provide valuable information for decision-making, this study's quantitative methodology involved collecting numerical data or data from a population sample. The population in this study is 2,428 business units per economic sector, according to the Yogyakarta City Small Business Annual Report and Medium Enterprises Cooperative Industry Service in the Sector of Cooperative and SME Affairs in 2022. Primary data was collected from 44 respondents using a questionnaire and a Likert scale, and it was used in this study. As a sampling strategy, this study employs incidental sampling. The method used to analyse the data is regression analysis.

3. RESULT AND DISCUSSION

Results

The findings of tests run by researchers using SPSS 26 are as follows:

Classic Assumption Test Test

Normality

This research used the Kolmogorov-Smirnov test to determine whether the data were normal. The data is considered to be regularly distributed if the significance value is more than 0.05.

Table 1. Kolmogorov Smirnov Test Results

Asymp. Sig. (2-tailed)	Description
0,200	Data is normally distributed

Source: data processed using SPSS 26

The Influence Of Length Of Business, Understanding Accounting And Business Size On The Quality Of Financial Reports (Case Study In Malioboro Area Of Yogyakarta).

Vinsensius Engelbertus Lado, et.al

The data is regularly distributed because the significance value for the Kolmogorov-Smirnov test is $0.200 > 0.05$ ($=5\%$).

Heteroscedasticity Test

The heteroscedasticity test in this investigation used the Glejser test. One can presume that there are no heteroscedasticity indicators if the significance value is greater than 0.05.

Table 2. Glejser Test Results

Model	Sig.
Length of Business	0,672
Understanding Accounting	0,328
Business Size	0,473

Source: data processed using SPSS 26

The Glejser test findings in the table indicate that the study model does not have a heteroscedasticity problem because each variable's significance has a value > 0.05 .

Multicollinearity Test

It can be inferred from the Glejser test results in the table that there is no heteroscedasticity issue with the study model because each variable's significance has a value > 0.05 .

Table 3. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
Length of Business	0,715	1,399
Understanding Accounting	0,803	1,245
Business Size	0,787	1,270

Source: data processed using SPSS 26

The table shows a VIF value of 10 and tolerance values > 0 for each variable. These findings provide credence to the theory that the regression model lacks multicollinearity.

F Statistical Test

Table 4. F Statistical Test Results

ANOVA ^a		Sum of Squares	df	Mean Square	F	Sig.
Model						
1	Regression	836.736	3	278.912	12.537	.000 ^b
	Residual	889.901	40	22.248		
	Total	1726.636	43			

a. Dependent Variable: Quality of Financial Reports

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

The test findings have a significance level of 0.000 to 0.05, as shown in the above table. The applied regression model is feasible since the significance level for the F test is less than 0.05.

Multiple Linear Regression Analysis

Using SPSS 26, the multiple linear regression analysis yielded the following results:

Table 5. Multiple Linear Regression

Model	Unstandardized Coefficients	
	B	Std. Error
(Constant)	-2,682	4,964
Length of Business	0,645	0,250
Understanding Accounting	0,258	0,118
Business Size	0,549	0,257

Source: Data processed using SPSS 26

The findings of the regression equation test are explained below:

$$Y = -2.682 + 0.645X_1 + 0.258X_2 + 0.549X_3$$

Information:

Y = Quality of Financial Reports

The Influence Of Length Of Business, Understanding Accounting And Business Size On The Quality Of Financial Reports (Case Study In Malioboro Area Of Yogyakarta).

Vinsensius Engelbertus Lado, et.al

α = Constant
X1 = Length of Business
X2 = Understanding of Accounting
X3 = Business Size
b1, b2, b3, b4 = Regression Coefficient

Hypothesis Testing

Table 6. t test (partial test)

Information	t	Sig	Syarat	Conclusion
Length of Business	2,581	0,014		Influential
Understanding Accounting	2,197	0,034	Sig < 0.05	Influential
Business Size	2,139	0,039		Influential

Source: Data processed using SPSS 26

The table above illustrates the following based on the t statistical test results:

1. The findings of the t test between the length of the company and the quality of the financial reports were a computed t value of 2.581 > t table 1.681 and a significant value of 0.014 0.05. These findings validate the first hypothesis, which holds that a company's duration influences the quality of its financial reporting.
2. A significant value of 0.034 0.05 was obtained from the t test findings between the accuracy of financial reporting and accounting comprehension, which showed a computed t value of 2.197 > t table 1.681.
3. The computed t value of 2.139 > t table 1.681 had a significant value of 0.039 0.05 according to the findings of the t test on the association between the company's size and the accuracy of its financial reporting. The third hypothesis—that a company's size influences the quality of its financial reporting—is supported by these findings.

Coefficient of Determination Test

Table 7. Determination Coefficient Test (R Square)

R	R Square	Adjusted R Square
0,696	0,485	0,446

Source: Data processed using SPSS 26

An R Square of 0.485 is obtained when accounting knowledge, business size, and length of business are tested for their effects on financial report quality. As a result, business size, accounting knowledge, and length of operation may all account for 48.5% of the variance in financial report quality, with the remaining 51.5% explained by characteristics not studied.

Discussion

The Effect of Business Length on the Quality of Financial Reports.

The t-count value was 2.581 > t-table 1.681, and the significance threshold was 0.014 0.05 based on the Coefficients output. Based on this value, the first hypothesis (H1) is true. It implies that the length of the business (X1) has a positive impact on the calibre of the financial reports (Y); the longer the firm has been in operation, the higher the calibre of the financial reports produced.

This test aligns with Erawati's (2021) findings, which indicate that a corporation's size affects the accuracy of its financial reports. In addition, the length of time an MSME player has been involved in his business affects the MSME financial report's correctness, according to research by Arisandi et al. (2022). The length of time a company has been in business has an impact on the way its executives behave and think, which alters their decision-making process. As a company gets older and conducts more operations, decisions become more complicated (Romandhon, 2022).

The Influence of Accounting Understanding on the Quality of Financial Reports.

The significance value was 0.034 0.05 and the t-count value was 2.197 > t-table 1.681 according to the Coefficients output. This figure lends credence to the first hypothesis (H2), which holds that accounting comprehension (X2) positively affects the calibre of financial reports (Y), suggesting that greater accounting comprehension is associated with higher-caliber financial report production. This exam is consistent with Lestari's (2020), which found that accounting-trained human resources can have an impact on the quality of financial reporting. Furthermore, MSMEs with sufficient accounting abilities will accurately maintain financial reports, per a study by Erawati (2021).

The Influence Of Length Of Business, Understanding Accounting And Business Size On The Quality Of Financial Reports (Case Study In Malioboro Area Of Yogyakarta).

Vinsensius Engelbertus Lado, et.al

The Effect of Business Size on the Quality of Financial Reports.

The significance value was 0.039 0.05, and the t-count value was 2.139 > t-table 1.681 according to the Coefficients output. With regard to the first hypothesis (H3), this figure suggests that it is true. Specifically, it suggests that the larger a business is, the more MSMEs understand how to produce high-quality financial reports (Y), and that business size (X3) has a favourable effect on both. The test findings corroborate Andayani's (2021) research, which discovered that a business's size positively and significantly affects the accuracy of its financial reports. Furthermore, Andari's research from 2022 shows that the preparation of financial reports using SAK EMKM is influenced by the size of the company. The growing scale of the organisation hinders MSME participants' capacity to compile trustworthy financial reports.

4. CONCLUSION

The length of time an MSME actor has been in operation influences how business people think and behave, which in turn changes how they make decisions and view MSME actors in relation to financial reports. This means that the longevity of operation has a significant impact on the accuracy of financial reports. Romandhon's (2022) research indicates that an individual's tenure in the business sector affects their comprehension of how MSME players should prepare financial reports. Decisions become more complex as a firm or business grows older and undertakes more operations. A thorough understanding of accounting has a significant impact on the quality of financial reports; so, human resources with strong accounting knowledge can influence financial report quality. This is in line with a study by Erawati (2021), which discovered that MSMEs with sufficient accounting expertise accurately keep financial reports. The size of the firm has a big impact on the quality of financial reports, thus MSMEs with larger businesses will have a greater understanding of how to produce high-quality financial reports. The test results support Andayani's (2021) research, which found that the size of the business has a favorable and significant impact on the accuracy of financial reports. In addition, research by Andari (2022) indicates that the size of the business affects how financial reports based on SAK EMKM are prepared. MSME participants' capacity to create trustworthy financial reports is impacted by the organization's growing size. It is intended that additional variables will be included as independent variables in subsequent studies in order to comprehend the factors that can affect the dependent variable. For instance, variables related to education level, SAP installation variables, information technology use, internal control, and broadening the research's reach by include more sites and respondents.

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