

The Influence of Accounting Knowledge and Capital Adequacy on Financial Report Quality in Small and Medium Enterprises in Pancoran Mas District, Depok City

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ABSTRACT

The quality of financial reports is essential information for producing high-quality financial statements, which are valuable to both companies and business practitioners. This study aims to examine the effects of accounting comprehension and capital adequacy on the quality of financial reports, both individually and simultaneously, for small and medium-sized enterprises (SMEs) in Pancoran Mas District, Depok City. This quantitative research used a random sampling technique by distributing questionnaires to respondents, resulting in a sample of 76 participants. Data analysis was conducted using SPSS Version 26. The partial analysis results indicated a significance value of $0.00 < 0.05$ for accounting comprehension, showing its influence on financial report quality, while the capital adequacy variable had a significance value of $0.037 < 0.05$, indicating its impact as well. The F-test yielded a significance level of 0.000 with an F-calculated value of 24.642, compared to an F-table value of 3.12, where $\text{sig} < 0.05$ and $\text{F-calculated} > \text{F-table}$. Thus, it can be concluded that accounting comprehension and capital adequacy have a simultaneous effect on the quality of financial reports. Therefore, it can be said that SMEs with strong accounting understanding and sufficient capital are likely to produce high-quality financial reports.

Keywords: Accounting Comprehension; Capital Adequacy; Financial Report Quality; SMEs

INTRODUCTION

According to the Indonesian Law on Micro, Small, and Medium Enterprises (MSMEs) No. 20 of 2008, individual businesses that meet the criteria for micro-enterprises are classified as micro-enterprises. A business is considered a micro-enterprise if it has capital not exceeding IDR 1 billion and an annual maximum sales revenue of IDR 2 billion. Small businesses, on the other hand, are productive economic ventures established by individuals or small groups, typically with capital ranging from IDR 1 billion to IDR 5 billion and annual revenues between IDR 2 billion and IDR 15 billion. Medium-sized enterprises are productive businesses owned by individuals or business entities, with capital between IDR 5 billion and IDR 10 billion and annual sales revenue ranging from IDR 15 billion to IDR 50 billion (Micro, 2020).

Micro-enterprises generally sell items that are not always consistent; their products may change, and they can operate in varying locations without a fixed place of business. They often lack formal business permits and need other forms of legal authorization (Wreta, 2022).

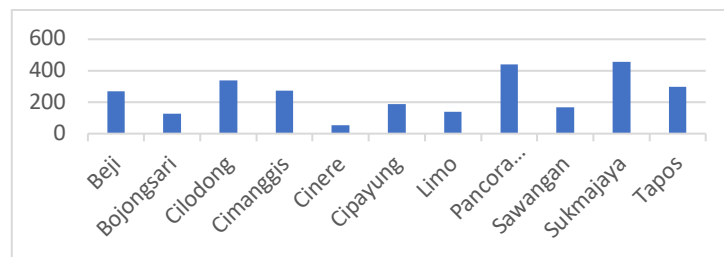


Figure 1: Number of MSMEs in Depok City in 2020

Source: Processed BPS data (Rosa et al., 2023)

The data above shows that the number of MSMEs in Depok City experienced strong growth in 2020, as illustrated by the 2020 MSME data chart for Depok City. In Pancoran Mas District alone, there were around 441 MSMEs in 2020, indicating a high concentration of MSMEs. However, many of these MSMEs lack understanding of or fail to apply accounting practices. Some MSMEs do not use accounting processes because they consider their businesses too small to require formal accounting (Pardita et al., 2019).

Currently, a common issue faced by MSME units is related to capital. Many individuals wish to start businesses but lack the necessary funding, making it challenging to launch their ventures. Financial report quality is assessed based on the amount of information available for users and the methods employed by businesses to prepare these reports according to fundamental accounting principles and objectives. Enhancing financial report quality can improve business performance, either for individuals or companies. Studies like this can yield substantial high-quality data (Taufiqurrohmah et al., 2021).

LITERATURE REVIEW

Definition and Understanding of Accounting

According to the ASOBAT committee, accounting is defined as a set of ideas and methods for measuring, recording, summarizing, and conveying an organization's financial information to interested parties to support decision-making (Dalimunthe, 2020). Accounting plays a crucial role for business owners in managing their businesses, providing valuable information to management and other stakeholders to evaluate the company's performance and financial health (R. Mayasari et al., 2023).

Function of Bookkeeping

Sawir defines the function of accounting as a tool to assist small and medium enterprises (SMEs) in taking actions and making decisions to develop their business in the future (Ayu Rahmawati et al., 2023). The recording process documents all financial transactions within an entity or organization, capturing all income and expenditures related to finances.

Purpose of Financial Reporting

The purpose of financial reporting, according to Yoewono (2023), includes: (1) supporting new developments and improving company performance; (2) providing information on the financial situation; (3) demonstrating the company's financial performance; and (4) showcasing management efficiency and accountability.

Small and Medium Enterprises (SMEs)

SMEs are efforts undertaken by individuals or groups to enhance their own welfare and that of their communities (Idayu et al., 2021). The growth quality of SMEs in Indonesia continues to improve, largely due to strong governmental support aimed at fostering small, medium, and micro enterprises, which play a vital role in forecasting future economic conditions and maintaining a resilient national economic structure (Mutrofin & Muhammad, 2021). According to the Department of Cooperatives, SMEs have a significant responsibility in the economy (Khasanah, 2023), including: (1) being key players in economic activities; (2) providing employment opportunities; (3) driving local economic development and community empowerment; (4) creating new market sources and innovations; and (5) contributing to the balance of payments.

Basic Characteristics of SMEs

The basic characteristics of SMEs, as outlined by V. Wiratna Sujarweni (2023), include: (1) challenges in obtaining loans, especially from formal financial institutions; (2) a generally low quality of human resources within SMEs in

Indonesia; (3) limited technology, which can result in lower product quality; and (4) weak cooperative relationships with larger companies.

METHOD

This research employs a quantitative descriptive method. According to Sukmadinata, quantitative descriptive research aims to describe phenomena—whether human-made or natural—such as form, function, characteristics, changes, relationships, similarities, and differences (Evitha & HS, 2019). The data collection was conducted by distributing questionnaires as the primary tool for gathering research material.

The research focuses on SMEs in Pancoran Mas District as the population. Based on data obtained from the Pancoran Mas District Office, there are 314 SMEs spread across six sub-districts: Pancoran Mas, Depok Jaya, Rangkapan Jaya, Mampang, Depok, and Rangkapan Jaya Baru. Using the Slovin formula, a sample size of 76 SMEs was determined to serve as respondents.

The chosen location for the study is Pancoran Mas District, Depok City, including the areas of Pancoran Mas, Depok Jaya, Rangkapan Jaya, Mampang, Depok, and Rangkapan Jaya Baru. This location was selected due to the high concentration of SMEs, making it an ideal site for this research.

Aligned with the study title, which examines the influence of accounting comprehension and capital adequacy on the quality of financial reports for SMEs in Pancoran Mas District, Depok City, the researcher developed a conceptual framework and hypotheses as follows:

- **H0a:** Accounting comprehension (X1) has no effect on financial report quality (Y).
- **H1:** Accounting comprehension (X1) positively affects financial report quality (Y).
- **H0b:** Capital adequacy (X2) has no effect on financial report quality (Y).
- **H2:** Capital adequacy (X2) positively affects financial report quality (Y).
- **H3:** Both accounting comprehension and capital adequacy have a positive effect on financial report quality.

RESULT AND DISCUSSION

The study's results and discussion reveal significant insights into the impact of accounting comprehension and capital adequacy on the quality of financial reports for SMEs in Pancoran Mas District, Depok City. The research used multiple tests to analyze the data, including normality, multicollinearity, heteroskedasticity, and autocorrelation tests, as well as multiple linear regression analysis to evaluate the effects of independent variables on the dependent variable.

The normality test, using the Kolmogorov-Smirnov method, indicated a significance level of 0.200, suggesting that the residuals are normally distributed (sig. > 0.05). This confirms that the data distribution is appropriate for further statistical analysis, ensuring reliable results.

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		76
Normal Parameters ^{a, b}	Mean	.0000000
	Std. Deviation	2.34466925
Most Extreme Differences	Absolute	.076
	Positive	.072
	Negative	-.076
Test Statistic		.076
Asymp. Sig. (2-tailed)		.200 ^{c, d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Multicollinearity was assessed using Tolerance and Variance Inflation Factor (VIF) values. The tolerance values were greater than 0.10, and the VIF values were below 10, indicating no multicollinearity issues. Specifically, the tolerance value was 0.709, and the VIF was 1.410, confirming that the model is free from multicollinearity and that the independent variables are not highly correlated.

Table 2. Multicollinearity Test

		Coefficients ^a					Collinearity Statistics	
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
		B	Std. Error	Beta				
1	(Constant)	10.681	2.579		4.141	.000		
	Pemahaman Akuntansi	.458	.102	.482	4.487	.000	.709	1.410
	Kecukupan Modal	.200	.094	.228	2.126	.037	.709	1.410

a. Dependent Variable: Kualitas Laporan Keuangan

The heteroskedasticity test employed the Glejser method, revealing that both accounting comprehension and capital adequacy variables had significance values greater than 0.05 (0.183 and 0.098, respectively). This result indicates no heteroskedasticity, meaning that the variance of residuals remains consistent across observations, supporting the validity of the regression analysis.

Table 3. Heteroskedasticity Test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.508	1.557		.968	.336
	Pemahaman Akuntansi	-.083	.062	-.183	-1.344	.183
	Kecukupan Modal	.095	.057	.228	1.675	.098

a. Dependent Variable: RES2

Autocorrelation was tested using the Durbin-Watson test. With Durbin-Watson values between 1.6819 and 2.3181, the results indicated no autocorrelation. This lack of autocorrelation suggests that the residuals are independent, which is crucial for the accuracy of the regression model.

Table 4. Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.635 ^a	.403	.387	2.377	1.979

a. Predictors: (Constant), Kecukupan Modal, Pemahaman Akuntansi

b. Dependent Variable: Kualitas Laporan Keuangan

The multiple linear regression analysis explored the impact of accounting comprehension and capital adequacy on financial report quality. The regression equation derived was:

$$Y=10.681+0.458 \times X_1+0.200 \times X_2$$

where Y represents financial report quality, X_1 is accounting comprehension, and X_2 is capital adequacy. The constant value of 10.681 indicates the baseline level of financial report quality when both independent variables are zero. The positive coefficients for both X_1 (0.458) and X_2 (0.200) suggest that improvements in accounting comprehension and capital adequacy are associated with better-quality financial reports. For each unit increase in accounting comprehension, the quality of financial reports improves by 0.458 units, while each unit increase in capital adequacy enhances report quality by 0.200 units.

The T-test results demonstrated that accounting comprehension significantly impacts financial report quality, with a significance level of 0.000, which is less than 0.05. The t-value for accounting comprehension was 4.487, greater than the critical t-value of 1.993, confirming the positive effect. Similarly, capital adequacy had a significant impact on financial report quality, with a significance level of 0.037 and a t-value of 2.126, also exceeding the critical value. These findings support the hypotheses that both accounting comprehension and capital adequacy positively influence the quality of financial reports.

Table 5. T-Test

		Coefficients ^a		Standardized Coefficients Beta	t	Sig.
Model		Unstandardized Coefficients B	Std. Error			
1	(Constant)	10.681	2.579		4.141	.000
	Pemahaman Akuntansi (X1)	.458	.102	.482	4.487	.000
	Kecukupan Modal (X2)	.200	.094	.228	2.126	.037

a. Dependent Variable: Kualitas Laporan Keuangan (Y)

In the F-test, which examines the simultaneous effect of accounting comprehension and capital adequacy on financial report quality, the significance value was 0.000, and the calculated F-value was 24.642, well above the F-table value of 3.12. This indicates that, together, these variables significantly affect the quality of financial reports, confirming that improved accounting skills and sufficient capital lead to higher-quality financial reporting among SMEs.

Table 6. F-test

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	278.361	2	139.180	24.642	.000 ^b
	Residual	412.311	73	5.648		
	Total	690.671	75			

a. Dependent Variable: Kualitas Laporan Keuangan (Y)

b. Predictors: (Constant), Kecukupan Modal (X2), Pemahaman Akuntansi (X1)

Finally, the coefficient of determination (R-square) was 0.403, meaning that accounting comprehension and capital adequacy together explain 40.3% of the variation in financial report quality among the sampled SMEs. The remaining 59.7% could be attributed to other factors not included in this study, suggesting areas for further research to identify additional variables that may impact financial report quality.

In summary, the study demonstrates that both accounting comprehension and capital adequacy play crucial roles in determining the quality of financial reports for SMEs. The findings suggest that providing training to enhance accounting skills and ensuring adequate financial support could significantly improve financial reporting practices, ultimately benefiting the business's transparency and decision-making capabilities. These results underscore the importance of fostering financial literacy and stable capital management among SMEs to enhance their financial accountability and performance.

CONCLUSION

Based on a sample of 76 respondents, the data analysis results allow for the following conclusions. First, accounting comprehension has a positive and

significant impact on financial report quality, supporting the acceptance of hypothesis H1. Second, capital adequacy influences financial report quality, with hypothesis testing results confirming that H2 is also accepted. Lastly, simultaneous testing using the F-test indicates that the calculated F-value exceeds the F-table value, which suggests that both accounting comprehension and capital adequacy collectively impact financial report quality, leading to the acceptance of hypothesis H3.

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