The Importance of Financial Statements for MSMEs in South Tambun Subdistrict

Original Article

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Abstract

The primary objective of this paper is to enhance awareness regarding the significance and comprehension of business entities in creating financial statements for MSMEs. A quantitative descriptive research approach was employed for this investigation. Primary data was gathered through questionnaires distributed to 150 MSME participants in South Tambun District, Bekasi Regency. Data collection involved both direct interaction and secondary means through surveys. The Partial Least Square (PLS) technique was utilised for processing and analysing the data. The findings revealed that the significance of financial statements plays a crucial role in the operations of micro, small, and medium enterprises. As a result, managers should prioritise financial statements and associated risks for improved knowledge and preparedness for future challenges.

Keywords: Business Management, Business Performance, Financial Statements, Financial Literacy, MSMEs.

1. Introduction

A country in the world can maintain and develop its national economy with the activities of the real sector. Various business activities run according to the conditions and potential of each change and can be categorised into three groups, namely large-scale companies or businesses, medium scale businesses and small scale businesses.

In the era of globalisation, it has opened up opportunities for countries in the world to conduct trade, which is often referred to as free trade or international trade (Haholongan, 2016). This makes it increasingly difficult for local businesses, especially in Indonesia, which are generally still unable to compete with multinational companies. Small and Medium Enterprises (SMEs) play a crucial role in Indonesia's economy by providing employment opportunities, making them susceptible to the effects of globalisation (Rudiantoro & Siregar, 2012). Multinational companies, which certainly have many advantages in terms of technology, management, networks, etc., pose a strong threat to SMEs in Indonesia. So, this is what SMEs must do to compete in all fields in order to survive in the market (Anggraeni et al., 2021).

Micro, Small and Medium Enterprises in Indonesia face many challenges in the current digital era such as 1) the limited ability of MSME players to undergo digital technology and digital literacy; 2) in some financing matters there are still many MSMEs that have not been able to compile bookkeeping reports and financial administration digitally; 3) product standardisation that is not yet in accordance with the digital-based export market; 4) complex, expensive, and time-consuming cross-border business regulations and procedures and 5) innovation and technology, digital skills, productivity, legal requirements or permits, funding,

brand promotion and advertising, manpower management, quality control and authentication, fairness, mentoring, education and amenities, as well as a unified database (Haholongan, 2017).

Micro, Small, and Medium Enterprises are a cluster of companies that have the potential to withstand economic instability in the nation (Edelia & Aslami, 2022). The growth in the quantity of small and medium businesses is poised to create numerous job openings. Nonetheless, these small enterprises are often perceived as having subpar performance (Soejono et al., 2020).

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the economic progress of a nation. Not only do they contribute to growth and provide jobs, but they also help in spreading the benefits of development (Prasetyowati & Panjawa, 2022). During the recent economic downturn in our country, many large businesses suffered losses and had to cease operations, while MSMEs proved to be more resilient in the face of the crisis (Sugianti & Anwar, 2021). Based on Indonesia's experience during the crisis, it is reasonable to shift the focus of private sector development towards MSMEs, as they are often overlooked due to their small-scale production and inability to compete with larger businesses.

Often Micro, Small and Medium Enterprises (MSMEs), focus on sales and marketing but ignore their financial statements. Financial statements are very important for every MSME business or actor because they can provide an overview or knowledge and condition of how healthy the business he is running. Business owners can find out whether their business is experiencing an increase and decrease and can decide whether or not it is feasible to get capital assistance from other parties. A financial report has important data such as assets, liabilities, capital, revenue or sales expenses, operating capital and cash flow. As for the reasons financial statements are very important, first, financial statements provide information about the financial condition of a business so that investors get an overview of business performance, business management, business performance and investors can find out the benefits they get if they invest in a business. Second, financial statements can be a guide for customers to trust a business because for customers if the financial reporting is stable, it can be interpreted as a safe company. Third, business financial statements provide an overview of the company's condition for employees for payroll and employee confidence to work in the company. Fourth, stable business financial statements can entrust shareholders to provide high share opportunities. Fifth, business financial statements as material for evaluating business conditions so that owners can determine policies in the next period (Puspitaningtyas, 2017).

The primary objective of this research is to examine and analyze the significance of financial statements among MSME owners in South Tambun Subdistrict. The findings of this study will be valuable for policymakers, business support organizations, and MSME owners themselves in understanding the crucial role of financial statements in business success and sustainability.

2. Literature Review

2.1. Definition of Financial Statements

The Indonesian Accounting Association defines financial statements in the 'Financial Accounting Standards' (2016) stated in the basic framework for the preparation and presentation of financial statements paragraph 7 is as follows:

Financial statements are a vital component of the reporting procedure. An all-encompassing set of financial statements typically consists of a balance sheet, income statement, and a statement outlining alterations in financial standing, presented in differing

formats like a cash flow statement or fund flow statement. Additionally, there will be accompanying notes, reports, and explanatory materials that form an essential part of the financial statements. These will also encompass schedules and additional information related to the statements, such as financial data, sections focusing on specific industries and geographical areas, and disclosures regarding the impacts of price fluctuations.

Meanwhile, according to Munawir (2020), financial statements are typically created by accountants towards the end of a company's financial period. These statements consist of two main lists: the balance sheet, also known as the financial position list, and the income list, also known as the profit and loss list. Companies have now adopted a practice of including a third list, which details either surpluses or undistributed profits, known as retained earnings, at the end of the period. Furthermore, according to Kasmir (2014), financial statements are reports that show the company's financial condition at this time or within a certain period.

According to the definition provided earlier, financial statements are essentially a summary of the outcomes of an accounting process. They serve as a means of sharing information between various stakeholders, both within and outside the company, who are interested in the company's financial performance. This report typically includes a balance sheet, income statement, and details of retained earnings.

2.2. Definition of MSMEs

MSMEs, which stands for micro, small and medium enterprises, refer to businesses operated by individuals, small groups, small business entities, or households. Indonesia, as an emerging nation, places significant emphasis on MSMEs as the cornerstone of the economy, aiming to bolster self-sufficiency and economic growth within society (Santiago & Estiningrum, 2021)

In 1998, Indonesia faced severe inflation, indicating a significant crisis at the time. However, MSMEs managed to withstand the global crisis, demonstrating resilience in the economy.

According to Setiyawati and Hermawan (2018), various aspects contribute to defining small businesses as follows:

a. Calculated according to the overall value of assets.

Small entrepreneurs are defined as individuals who possess a total value of less than IDR 200.000.000, not including the value of any land or buildings used for their business operations.

b. According to overall revenue generated.

Small business owners are individuals who generate a maximum of IDR 1.000.000.000 in annual net sales.

c. According to the status of possession.

Small entrepreneurs refer to independent businesses that may operate as a single entity, either as a legal corporation or as an informal cooperative.

Various experts have provided differing definitions for MSMEs and Small Industries:

a. As per the Department of Industry and Trade's (Disperindag) findings.

Small Industry refers to a sector of commerce that typically employs a staff of 5 to 19 individuals.

b. As reported by the Central Statistical Office (BPS).

A tiny industry refers to a business that employs fewer than 20 individuals, comprising of both paid employees, owner-operators, and family members who work without pay. Additionally, BPS offers straightforward guidelines depending on the quantity of employees or establishments involved.

1. Small-scale enterprises typically employ between one and four individuals for their operations.
2. A small business usually consists of a team of five to nineteen employees.
3. A medium-sized company typically employs anywhere from twenty to ninety-nine workers.
4. Large corporations generally have a staff of over one hundred people.
c. According to the Ministry of Finance.

Small enterprises in Indonesia are defined as businesses run by Indonesian citizens with sales assets not exceeding IDR 1 billion annually.

d. As per the Minister responsible for Cooperatives and Small Businesses.

Small enterprises in Indonesia are owned by Indonesian nationals, either as individuals or legal entities, with a maximum net worth of Rp 200.000.000, a turnover of up to Rp 1.000.000.000, and operate independently.

e. According to the Poverty Reduction Committee.

Small businesses are owners or operators of micro-scale business activities in all economic sectors with assets excluding land and buildings of a maximum of IDR 25.000.000.

f. According to the Asian Development Bank (ADB).

Small enterprises are non-agricultural businesses that employ less than 10 people including the business owner and family members.

g. According to the World Bank.

Small businesses are collaborative ventures or family-run operations with fewer than 100 employees, including those run by a sole proprietor. These enterprises rely on limited funds from personal savings and loans to sustain their operations.

h. According to the ILO (International Labour Organization).

A small enterprise is defined as a business with no more than 10 employees that operates with basic technology, limited resources, and minimal managerial expertise without any tax obligations.

According to various sources, the categorization of MSMEs (Micro, Small, and Medium Enterprises) holds commonalities, indicating that these businesses, whether registered or not, typically employ 1-100 individuals and are owned by Indonesian nationals, generating sales of up to 1 billion annually.

3. Methods

This study utilises quantitative research methods in the form of a survey. As mentioned by Sugiyono, quantitative research methods rely on positivism and are used to study specific populations or samples. Sampling is typically done randomly, data is collected using research instruments, and analysis is quantitative or statistical to test predetermined hypotheses (Sugiyono, 2015). The primary data utilised in this study originates from survey questionnaires distributed to participants.

The variable measurement used in this study is an ordinal scale measurement, a scale which is similar to a nominal scale where both of these data are categorical. The ordinal scale in this study has measurements in the low, medium or average, and high categories. The ordinal scale here answers questions to respondents who are asked to provide a sequence of alternative answers that are most suitable for conducting a study.

The primary data used in this research study was collected directly from the source. In this case, the data was gathered from MSME owners in South Tambun District through a questionnaire. Population refers to a group of individuals or objects with specific qualities that

researchers use to draw conclusions. The population studied in this research consisted of MSME owners in South Tambun Subdistrict.

The sample is part of the population that is believed to represent the characteristics of the population as a whole or the number owned by the population. The sample of this research is the owner of MSMEs in South Tambun Subdistrict, because there are still many who do not know the importance of financial statements in the South Tambun Subdistrict area. In this study, a non-probability sampling method known as convenience sampling was utilised. Convenience sampling allows researchers to freely select samples at their discretion. This method was chosen to ease the research process due to the unknown population being studied, allowing for the selection of the quickest and most convenient samples.

The author collects data for this research on several obstacles experienced related to MSMEs business actors using the following:

1. Observation and Interview

The author makes observations first at MSMEs in South Tambun Sub-District. This observation aims to find out what are the obstacles of business actors in running their businesses.

2. Socialisation

Providing knowledge and information to MSMEs about the importance of financial bookkeeping for the sustainability of their business in the future.

4. Results and Discussion

4.1. Results of the Validity Test for the Importance of Financial Statements

Table 1. Validity Test Result for the Importance of Financial Statements

Question	Pearson Correlation	Sig	R Table	Description
P1	0,831	0.000	0.1603	Valid
P2	0,841	0.000	0.1603	Valid
P3	0,815	0.000	0.1603	Valid
P4	0,646	0.000	0.1603	Valid
P5	0,850	0.000	0.1603	Valid
P6	0,746	0.000	0.1603	Valid
P7	0,771	0.000	0.1603	Valid
P8	0,813	0.000	0.1603	Valid
P9	0,837	0.000	0.1603	Valid
P10	0,848	0.000	0.1603	Valid

Source: Data processed

According to Ghozali (2016) if the Pearson correlation value exceeds the critical value based on the table, it is considered to be statistically significant. In addition, if the significance value is less than 0.05, it is also considered statistically significant. According to the data presented in the table, it is evident that 10 items from the questionnaire assessing the significance of financial statement variables have been validated, with a significance level below 0.05. This implies that these statements align with the findings of the research.

4.2. Validity Test Results of Micro, Small and Medium Enterprises (MSMEs)

Table 2. Validity Test Result for MSMEs

Question	Pearson Correlation	Sig	R Table	Description
P11	0,830	0.000	0.1603	Valid
P12	0,801	0.000	0.1603	Valid
P13	0,825	0.000	0.1603	Valid
P14	0,759	0.000	0.1603	Valid
P15	0,770	0.000	0.1603	Valid
P16	0,832	0.000	0.1603	Valid
P17	0,732	0.000	0.1603	Valid
P18	0,775	0.000	0.1603	Valid
P19	0,804	0.000	0.1603	Valid
P20	0,809	0.000	0.1603	Valid

Source: Data processed

The table provided indicates that 5 questions related to the assessment of Micro, Small, and Medium Enterprises have been deemed valid with a significance level below 0.05. This suggests that these statements align with the findings of the study.

4.3. Reliability Test Results of the Importance of Financial Statements

Table 3. Reliability Test Results of the Importance of Financial Statements
Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
p1	38,7067	55,511	,796	,927
p2	38,5267	53,741	,801	,926
p3	38,5133	53,782	,768	,927
p4	38,6533	55,892	,559	,938
p5	38,3600	52,635	,808	,925
p6	38,2133	52,880	,670	,933
p7	38,5200	54,439	,714	,930
p8	38,3333	53,593	,764	,927
p9	38,3467	52,698	,791	,926
p10	38,4867	51,903	,802	,925

Source: Data processed

Based on the information provided in the table, it is evident that the findings can be trusted as the alpha value for each statement in the survey regarding the significance of financial statements exceeds 0.70. This suggests that the responses given by the participants in the study are considered dependable, allowing for the progression of the research to the next stage.

4.4. Reliability Test Results of Micro, Small and Medium Enterprises

Table 4. Reliability Test Results of Micro, Small and Medium Enterprises
Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
p11	58,2733	151,770	,809	,950
p12	58,0667	148,734	,770	,950
p13	57,9400	147,412	,796	,950
p14	58,1533	146,923	,715	,951
p15	58,2133	146,813	,728	,951
p16	58,0467	147,454	,804	,949
p17	57,5733	146,837	,682	,952
p18	57,3933	144,871	,730	,951
p19	57,2867	142,098	,761	,951
p20	57,7933	145,306	,773	,950

Source: Data processed

According to the table above, the results are reliable because the alpha value of each statement from the small and medium enterprise (UMKM) questionnaire is above 0.70. It can be concluded that the respondents' answers to the statements in this study are said to be reliable and this research can be carried out to the next level.

4.5. Normality Testing

Table 5. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		150
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	4,26379819
Most Extreme Differences	Absolute	,096
	Positive	,096
	Negative	-,079
Kolmogorov-Smirnov Z		1,171
Asymp. Sig. (2-tailed)		,129

a. Test distribution is Normal.
b. Calculated from data.

4.6. Multicollinearity Test Results

Table 6. Multicollinearity Test Results
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2,687	1,894		-1,418	,158		
	PLK	1,392	,077	,868	17,985	,000	,314	3,189

a. Dependent Variable: KP

The data indicates that none of the independent variables have a tolerance value lower than 0.1, suggesting no significant correlation among variables exceeding 90%. Similarly, the Variance Inflation Factor (VIF) calculations reveal that none of the independent variables have a VIF value surpassing 10. Therefore, it can be inferred that there is no multicollinearity present among the independent variables in this regression model.

4.7. Regression Equation

Table 7. Regression Equation
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2,687	1,894		-1,418	,158		
	PLK	1,392	,077	,868	17,985	,000	,314	3,189

a. Dependent Variable: MSMe

From the above result, the following equation can be compiled:

$$Y= -2,687+ 1,392X+E$$

Notes:

Y = MSMES

X = Importance of Financial Statements

E = Error

4.8. F Test Results

Table 8. F Test Results
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22511,457	2	11255,729	610,817	,000[b]
	Residual	2708,816	147	18,427		
	Total	25220,273	149			

a. Dependent Variable: MSMEs
b. Predictors: (Constant), PLK

According to Ghozali (2013), if the F value is higher than the F table value or the significance value is less than 0.05, it indicates that the variables x1, x2, and x3 collectively impact the variable y. In this research, the F value is 61.894, exceeding the F table value of 3.05 with a significance level of 0.000. As the significance level is below 0.05 and the F value exceeds the F table value, it can be concluded that financial statements play a significant role in influencing MSMEs. Hence, this hypothesis is considered to be statistically significant.

4.9. Results of the t-test

Table 9. T Test Results
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2,687	1,894		-1,418	,158		
	PLK	1,392	,077	,868	17,985	,000	,314	3,189

a. Dependent Variable: MSMEs

Referring to the data provided in the table 9, the findings of the t-test conducted to address the hypothesis in this research can be summarised as follows:

The relevance of financial statements for Micro, Small and Medium Enterprises (MSMEs) was assessed through hypothesis 1 testing, with the results displayed in the table. The variable of Financial Statements Importance showed a significant value of 0.000. This indicates that H01 is accepted, suggesting that Financial Statements Importance has a notable impact on MSMEs, given that the significance level of the variable is less than 0.05.

4.10. Determination Analysis

Table 10. Determination Analysis Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,945[a]	,893	,891	4,29271	1,952

a. Predictors: (Constant), PLK
b. Dependent Variable: MSMEs

According to the information provided in the coefficient of determination test results table, it is evident that the Adjusted R Square value is 0.891, indicating that 89.1% of the variability in micro, small and medium enterprises (MSMEs) can be accounted for by the significance of financial statements. The remaining 10.9% (100%-89.1%) is attributed to other variables not considered in this research.

5. Conclusion

The importance of financial statements for micro, small, and medium enterprises (MSMEs) is crucial, as research shows that they significantly impact the business operations of MSME owners, especially in the financial sector. However, many MSMEs still rely on manual methods, such as petty cash books, and some do not use financial statements at all due to a lack of information and education. This highlights a key issue: government support and education are essential to ensure that MSMEs can thrive in a technologically advanced world. By offering more guidance and promoting the use of modern tools, the government can help improve the overall economy within the MSME sector.

To improve MSMEs, it is necessary to provide them with knowledge on how to create financial statements and understand the long-term risks and benefits. Regular financial reporting helps MSMEs monitor cash flow, revenue, and costs, which ultimately enhances decision-making and business performance. Investors can use these reports to make informed decisions about investing in MSMEs. Moreover, using bookkeeping applications simplifies the process, reduces errors, and saves time. By adopting these practices, MSMEs can track their financial progress and ensure they meet their set targets, paving the way for business growth and success in the competitive market.

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