

The Determinants Quality of SME Financial Reporting: A case study in Tangerang, Indonesia

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Abstract: *This study aimed to assess the effect of Accounting Information Technology, Competency of SME Practitioners, & Understanding of Financial Accounting Standards for SME on the Quality of SME Financial Reports. The research population was SMEs in the South Tangerang City area. The sampling technique used purposive sampling, which selected 100 samples from SMEs in South Tangerang. The research variables were measured by using a Likert scale. The research approach was Structural Equation Model or SEM. The results of this study showed that accounting information technology, the competency practitioners, and the understanding of Financial Accounting Standards for SMEs have a positive and significant effect on the quality of financial reports*

Keywords: *Accounting Information Technology, Competency, Financial Accounting Standards for SME, Quality of Financial Reporting*

Introduction

SME plays a significant role in the Indonesian economy. The productivity of SMEs improves consistently, and they can provide broad job opportunities and have great entrepreneurial power in society. The Ministry of Cooperatives and SMEs of the Republic of Indonesia stated that SMEs contribute 60% to the National GDP. If SME financial reports are good, the government will get additional income from SMEs; 93% of business in Indonesia is SME. Moreover, the workforce in SMEs reaches 96%.

Currently, SME practitioners encounter various problems, including the difficulty of obtaining loans from the bank. Loans that are intended as additional capital. This problem happened due to the weakness of human resources or HR in making financial records. Competency in global competition is essential because it can maintain SME and economic stability.

Because of the poor financial report, banks cannot assess their creditworthiness. The lack of bank loans to SMEs is due to the poor quality financial reports, and they cannot provide adequate information regarding the financial condition of SMEs (Rudiantoro, R., & Siregar, 2012). The competency of practitioners greatly affects the quality of SME financial reports. If SME Practitioners have accounting bookkeeping skills and accounting knowledge according to accounting standards, the financial reports will be of high quality and meet the standards. Therefore, they can be used as benchmarks in assessing the performance of these SMEs and can be used as guidelines for providing credit to SMEs.

However, starting from the ratification until now, it still shows that the implementation of Financial Accounting Standards For SMEs is not optimal for entrepreneurs. This is due to the lack of maximum knowledge and information, which causes a lack of motivation to maintain bookkeeping according to standards. In this

regard, in order to help SMEs to be able to organise financial reports, DSAK IAI on 24/10/2016 made and ratified the exposure draft of the Financial Accounting Standards for Micro, Small and Medium Entities or Financial Accounting Standards for SME, which has a concept that is not so difficult or can be called simple when compared with Financial Accounting Standards for SME.

This study focuses on the quality aspects of SME financial reports in South Tangerang. The following is the population of SMEs in South Tangerang as of 2021. The number of industries in Tangerang City is a potential source of support for SMEs. With the dominance of the industrial sector, it is hoped that big players in the industry can become business partners and support SMEs in developing their business. Large population, easy to find raw materials, transportation facilities, availability of infrastructure and facilities related to energy and telecommunications are expected to help SMEs develop. The performance of SMEs in Tangerang City is considered good with sales turnover around Rp 5 million to IDR 10 million, maximum reach IDR 100 million per month. The average expenditure is around 1 Million to 10 Million and up to 100 Million (Utami, 2017).

This study aims to examine and assess the effect of using Accounting Information technology, the Competency of SME Practitioners, & Understanding of Financial Accounting Standards For SMEs on the Quality of SME financial reports in South Tangerang. The results of this study are expected to increase knowledge and benefits, especially for SME Practitioners in South Tangerang, so that they are competent in organising quality financial reports and meeting existing standards.

Literature Review and Hypothesis

Entity Theory

It is mandatory to separate the finances of the owner of a business entity from business activities. This follows the single business concept or the Economic Entity Concept, which

explains that entities, in this case, SMEs, must be treated as independent business entities and not mixed with the owner's transactions. The implication is that the relationship between SMEs and their owners is considered a transaction between 2 separate parties. This concept is mandatory for the sustainability of the SME business.

SME owners are often confused about calculating the profit earned if the separation of financial records is not carried out. It is even worse if no trace of cash/bank sources is used to fund business activities with the owner's activities (Sari, 2013). SMEs are independent business entities regardless of who owns them. So, the SME performance assessment must be based purely on the SME's financial position without considering any amount of assets owned by the owner.

Stewardship Theory

Stewardship theory is a theory made by Donaldson and Davis, which illustrates a situation where managers in an entity are not motivated by individual interests but are more focused on the main goals of the entity. This theory has sociological and psychological concepts that have been created for company officials as stewards who are triggered to act according to the owner's goals. Steward behaviour will not leave the entity because the steward tries to help the entity achieve its goals (Riyadi, S., & Yulianto, 2014). Stewardship theory explains that the company's goals are the same as each party involved or working for the company. So, to achieve this target, cooperation and uniformity of vision & mission are needed from the top management to the company's employees.

Quality of Financial Reports

The quality of SME financial reports must follow Financial Accounting Standards For SME. Preparing financial reports following Financial Accounting Standards for SMEs from IAI (2018) produces financial information and entity performance useful for users to make economic

decisions. Financial reports are also helpful for showing management accountability for its activities. Creditors or investors are some examples of users of financial reports.

Accounting Information Technology

Bambang Warsita (2008) revealed that information technology is system facilities and infrastructure and ways to obtain, transfer, manage, interpret, archive, organise, and utilise data effectively. Hamzah and Lamatenggo (2010) also explain information technology used to manage data. Budiono's research (2018) states that accounting information technology positively affects the quality of financial reports.

H1: Accounting Information Technology has a significant effect on the quality of SME financial reports

Competency of SME Practitioners

(Wati et al., 2014) mentions that SME Practitioners' competency is human skills to carry out their duties and job desks in companies with sufficient education, training and experience capital to achieve company goals. SME practitioners still do not understand accounting and lack knowledge about accounting standards that apply in financial reports due to SME Practitioners' low level of education and the lack of accounting training (Alhusain, 2014).

HR competency greatly impacts the quality of SME financial reports. Suppose HR has the ability to book accounting and accounting knowledge according to accounting standards. In that case, the output of financial reports will be of good quality and meet the standards so that it can be used as a benchmark in assessing the performance of SMEs. In line with research by Hinsyana (2018), Safitri (2015) and Devi R (2011) that the competency of SME Practitioners affects the quality of financial reports.

H2: The competency of SMEs practitioners has a significant effect on the quality of SME financial reports

Understanding of Financial Accounting Standards For SME

Kusuma and Lutfiany (2018) state that understanding is when an individual understands or know a science. Understanding is knowing the science and how to execute it (Sujana, 2014). SMEs' understanding of financial reports following standards will undoubtedly help organise financial reports following Financial Accounting Standards For SME, which can help SME develop. Adequate understanding for SMEs to prepare accurate financial reports can make it easier for companies. Meidiyustiani's research (2016) and Winkel's theory (2004) explain that understanding the meaning of a lesson can be a provision in preparing financial reports.

H3: Understanding of Financial Accounting Standards For SME has a significant effect on the quality of SME financial reports

Methodology

Types of research

This research is categorised as causal research. Guided by the characteristics of the problem taken, this research uses a survey approach. The data category used in this study is primary data. The data were collected using questionnaire instruments. Detail description of dimensions, indicators, and references used to develop the questionnaire instrument is presented in table 1. In total, there are 46 questions for measuring variables, namely quality of financial report (Y), Accounting Information technology (X1), competency SMEs practitioners (X2), and understanding Financial Accounting Standards for SMEs. The respondents were SMEs practitioners in various business sectors. The research variables were measured by using a Likert scale

Table 1. Variables, Dimensions and Indicators

Variable	Dimension	Indicator	Question Number	Reference
Quality of Financial Reports (Y)	a. Relevant	1. Correction of past activities	1&2	(Yeni et al., 2020), (Dewi & Hoesada, 2020), (Anggraeny, 2020)
	b. Reliable	2. On-time		
	c. Comparable	3. Complete	3&4	
	d. Understandable	4. Honest Presentation	5	
		5. Verifiable	6	
		6. Neutrality	7	
		7. Period comparison	8	
		8. Policy comparison	9	
		9. User understanding	10	
			11	
Accounting Information Technology (X1)	a. Computer	1. Use of Computerized	12	(Muda et al., 2017), (Jauhari et al., 2019), (Amaliyah & Apriyanto, 2019)
	b. Development	2. Computerised Accounting	13 & 14	
		3. Computer Maintenance	15	
		4. Technology development	16,17&18	
Competency of SME Practitioners (X2)	a. Knowledge	1. Accounting Science	19& 20	(Iskandar & Setiyawati, 2015), (Hanifah, Sarpingah, and Putra, 2020) (Tampubolon & Basid, 2019)
	b. Skill	2. Accounting technical knowledge	21	
	c. Attitude	3. Administrative skills	22 & 23	
		4. Technical skills	24&25	
		5. Training	26	
		6. Personal	27	
		7. Responsibility	28	
		8. Attitude	29	
		9. Behavior	30	
Understanding of Financial Accounting Standards For SME (X3)	a. Understanding	1. Understand Financial Accounting Standards For SME	31,32,33&34	(Kusuma dan Lutfiany, 2018), (Annisa et al., 2020), (Vianastasia Adryant & Rita, 2020)
	b. Making financial reports	2. Understand Accounting Transactions	35,36,37&38	
		3. Understand the existence of transaction documents	39 & 40	
		4. Understand the accounting cycle	41	
		5. Understand accounting records	42	
		6. Understand the preparation of financial reports	43&44	
		7. Able to make financial reports	45&46	

Population and Research Sample

The population is the sum of the overall group, events that make researchers interested in studying further. The population was SME that scattered in South Tangerang City. The sample was a small part of the population. The sampling technique of respondents was purposive sampling, so that the samples were 100 SMEs in the city of South Tangerang at the Ministry of Cooperatives and SME. The population was narrowed by only accompanying SME Practitioners who had already carried out recording and bookkeeping activities, regardless of whether or not the

recording/bookkeeping activities were appropriate.

Data collection technique

The questionnaire contains statements that measure the Competency of SME Practitioners, accounting information technology and understanding of Financial Accounting Standards for SME with a total of 46 statements, consisting of (4) instruments, each instrument is the Quality of SME financial reports (11 statements), accounting information technology (7 statements), SME Competency (12 statements) and Financial Accounting Standards For SME

understanding (16 statements). Literature study is a way of collecting data from many sources of information and reviewing books related to the quality of financial reports, the Competency of SME Practitioners, accounting information technology and understanding of Financial Accounting Standards For SMEs.

Data Analysis

The research hypotheses were tested with the PLS-based Structural Equation Model or SEM. PLS is a structural equation model that focuses on variance. SEM is one of the statistical fields that can assess a relationship component that is relatively difficult to measure simultaneously. Latan and Ghazali (2012) revealed that PLS is an alternative approach that evolved from the covariance SEM method to become variant. SEM, which is covariant, usually assesses causality, while PLS is more predictive. However, there is a difference between covariance and component SEM in using models to assess theory for

predicting purposes. The evaluation of the PLS model is divided into two stages, namely the evaluation of the outer model or measurement model and the evaluation of the inner model or structural model.

Results and Discussion

Descriptive statistics

This study's descriptive statistics regarding accounting information technology can be described in the following table (Table 2). Based on information in table 2 above, the highest average value for the variable accounting information technology is in the technology development dimension for statement no. 6, namely the information in the financial statements has honestly described all transactions and other events that should have been presented and the lowest average value is in a statement no 7 with a statement.

Table 2. Descriptive statistics of Accounting Information Technology

	Mean	Std. Deviation
1. Use of Computerisation	4.2300	0.67950
2. The use of Office Excel	4.0600	0.74968
3. Computerised accounting	4.0600	0.76303
4. Computer Maintenance	3.6300	0.94980
5. Technology utilisation	4.1700	0.68246
6. Simplify the process of making financial reports	4.2500	0.68718
7. Technology Development	3.7500	0.96792

The information presented in the financial statements can be tested and verified to check the truth or objectivity. Thus, it can be seen that from each indicator on the variable using accounting information technology, the standard deviation is smaller than the mean indicating the distribution of the data indicators is small, or there is no large enough gap for each of the lowest and highest indicators.

Information regarding the competency of SME practitioners is presented in table 3. Based on information in table 3, the highest average value for the competency variable for SME Practitioner is found in the behavioural

dimension for statement no 12, namely Always maintaining the quality and image of the products/services sold, and the lowest average value is in a statement no 7 on the skills dimension. Technical statement with the ability to prepare financial reports following Financial Accounting Standards for SME. Thus, it can be seen that from each indicator on the competency variable of SME Practitioner, the standard deviation is smaller than the mean indicating a small distribution of data indicators or the absence of a large enough gap for each of the lowest and highest indicators.

Table 3. Descriptive statistics of the Competence of SME Practitioner

	Mean	Std. Deviation
1. Educational background	4.0700	0.84393
2. Accounting Science	4.1100	0.72328
3. Accounting Technical Knowledge	4.1200	0.67090
4. Administrative Skills	4.1100	0.60126
5. Administrative Skills	4.2300	0.67950
6. Technical Skills	4.0600	0.74968
7. Financial Reporting Skills	3.7500	0.77035
8. Training	4.0300	0.67353
9. Personal	4.2400	0.72641
10. Responsibility	4.3800	0.74914
11. Attitude	4.1500	0.83333
12. Behavior	4.5100	0.70345

Information regarding the Understanding of Financial Accounting Standards is presented in Table 4. Based on table 4, the highest average value for the understanding of the Financial Accounting Standards variable is found in the accounting transaction understanding dimension for statements no 5 and 8, namely, transactions related to business must be separated from business owner transactions. The lowest average value is in statement no 1 contained in the dimensions of understanding of Financial

Accounting Standards with the statement for micro, small and medium entities that have not met the accounting requirements in Financial Accounting Standards. Thus, it can be seen that for each indicator on the understanding of Financial Accounting Standards variable, the standard deviation is smaller than the mean indicating a small distribution of data indicators or the absence of a large enough gap for each of the lowest and highest indicators.

Table 4. Descriptive statistics of Understanding of Financial Accounting Standards

	Mean	Std. Deviation
1. Understand the Financial Accounting Standards for SME	3.6800	.81501
2. Scope the Financial Accounting Standards for SME	3.8000	.75210
3. Basis for measuring the Financial Accounting Standards for SME	3.7700	.69420
4. Understand Accounting Transactions	3.9300	.67052
5. Separation of Business and Personal transactions	4.2300	.70861
6. Revenue recognition	4.0600	.76303
7. Deferred tax	4.1100	.60126
8. Understand the existence of transaction documents	4.2300	.67950
9. Understand the accounting cycle	4.0900	.76667
10. Understand accounting records	4.0800	.69165
11. Understand the preparation of financial statements	4.1000	.68902
12. Statement of financial position	4.0400	.63437
13. Income statement	4.0300	.67353
14. Able to make financial statements	4.1100	.72328

Information regarding the Quality of Financial Reporting is presented in table 5. From the information in table 5, the highest average value

for the variable quality of financial reporting is found in the dimensions of past activity correction for statement no. 1 and neutrality of

statement 8, namely financial statements provide information that can correct past financial activities and financial statements present information that prepared for the needs of stakeholders and not for special needs and the lowest average value is found in statement no. 4 is on the timely dimension with the statement. When preparing financial statements, management uses SAK EMKM in assessing the

entity's ability to continue its business in the future (going concern). Thus, it can be seen that for each indicator on the quality of financial reporting variable, the standard deviation is smaller than the mean indicating the distribution of data indicators is small, or there is no large enough gap for each of the lowest and highest indicators.

Table 5. Descriptive statistics of Quality of Financial Reporting

	Mean	Std. Deviation
1. Correction of past activities	4.2300	0.81470
2. Estimated income	3.9600	0.81551
3. Timely	4.2000	0.79137
4. Business continuity	3.9400	0.85067
5. Complete	4.0800	0.77434
6. Honest presentation	4.1900	0.70632
7. Verifiable	4.1300	0.69129
8. Neutrality	4.2300	0.67950
9. Period comparison	4.0600	0.74968
10. Policy comparison	4.1200	0.67090
11. User understanding	4.1100	0.60126

Validity test

Validity testing is done by calculating convergent validity and discriminant validity. Convergent validity can be seen via the loading factor. The instrument is said to meet the convergent validity test if it produces a loading factor of more than 0.7. Following the information in table 6, it can

be seen that the overall indicators of the variables of Accounting, Information Technology, Competency of SME Practitioners, Understanding of Financial Accounting Standards For SME, and Quality of SME Financial Reports have a loading factor value higher than 0.7. So this research indicator can be called valid.

Table 6. Factor Loading Post Test

Variable	Indicator	Factor Loading	Result
Accounting Information Technology (X1)	TIA.1	0.832	Valid
	TIA.2	0.841	Valid
	TIA.3	0.753	Valid
	TIA.5	0.823	Valid
	TIA.6	0.873	Valid
Competency of SME Practitioners (X2)	KOM.1	0.737	Valid
	KOM.2	0.840	Valid
	KOM.3	0.834	Valid
	KOM.4	0.873	Valid
	KOM.5	0.802	Valid
	KOM.6	0.755	Valid
	KOM.8	0.703	Valid
	KOM.9	0.847	Valid

	KOM.10	0.723	Valid
	KOM.12	0.780	Valid
Understanding of Financial Accounting Standards For SME (X3)	SAK.1	0.711	Valid
	SAK.2	0.774	Valid
	SAK.4	0.788	Valid
	SAK.5	0.768	Valid
	SAK.6	0.770	Valid
	SAK.7	0.844	Valid
	SAK.8	0.790	Valid
	SAK.9	0.777	Valid
	SAK.10	0.808	Valid
	SAK.11	0.757	Valid
	SAK.13	0.772	Valid
	SAK.14	0.779	Valid
	SAK.15	0.745	Valid
Quality of Financial Reports (Y)	KLK.1	0.741	Valid
	KLK.3	0.747	Valid
	KLK.5	0.794	Valid
	KLK.6	0.754	Valid
	KLK.8	0.799	Valid
	KLK.9	0.765	Valid
	KLK.10	0.828	Valid
	KLK.11	0.835	Valid

Convergent validity can also be seen from the Average Variance Extracted or AVE. The instrument has passed the convergent validity test if it results in an AVE exceeding 0.5. The following information in table 7 shows that the variables of Accounting Information Technology, Competency of SME Practitioners, Understanding of Financial Accounting

Standards For SME, and Quality of SME Financial Reports obtained an AVE value of more than 0.5. Then the indicators of Accounting Information Technology, Competency of SME Practitioners, Understanding of Financial Accounting Standards For SME, and Quality of SME Financial Reports are declared reliable.

Table 7. Convergent Validity Test Results

	AVE
Accounting Information Technology (X1)	0,626
Competency of SME Practitioners (X2)	0,614
Understanding of Financial Accounting Standards For SME (X3)	0,605
Quality of Financial Reports (Y)	0,681

Reliability Test

The reliability test criteria are if composite reliability exceeds 0.7 and Cronbach alpha exceeds 0.6. Table 8 explains that it is known that the composite reliability value of the variable Accounting Information Technology, Competency of SME Practitioners, Understanding of Financial Accounting Standards For SME, and Quality of SME

Financial Reports, exceeds 0.7. So, according to the calculation of composite reliability, all of them are declared reliable. Then the Cronbach Alpha value of the variables of Accounting Information Technology, Competency of SME Practitioners, Understanding of Financial Accounting Standards For SME, and Quality of SME Financial Reports exceeded 0.6. So, according to the Cronbach Alpha calculation, all indicators are declared reliable.

Table 8. Calculation Results of Cronbach Alpha and Composite Reliability

	Cronbach's Alpha	Composite Reliability
Accounting Information Technology (X1)	0.882	0.914
Competency of SME Practitioners (X2)	0.933	0.943
Understanding of Financial Accounting Standards For SME (X3)	0.940	0.948
Quality of Financial Reports (Y)	0.910	0.927

Conformity of the Goodness of Fit Model

The R-square of Quality of Financial Reports has a value of 0.906 or 90.6%. This shows that Accounting Information Technology can explain the diversity of Financial Report Quality, Competency of SME Practitioners and Understanding of Financial Accounting

Standards For SME by 90.6%, or the contribution of Accounting Information Technology, Competency of SME Practitioners and Understanding of Financial Accounting Standards For SME to Quality of Financial Reports of 90.6%, while the difference is 9.4% is a contributing factor that the researcher did not take up.

Table 9. Summary of Goodness of fit Model Results

Variable	R Square	R Square Adjusted
Quality of Financial Reports	0.906	0.903

Hypothesis testing

The following presented in Table 10 are Summary of Hypothesis Testing Results. Based on the information presented in table 10, it can be identified that P-Values < 0.05. It implies that all hypotheses proposed are accepted. There is a positive and significant effect of Accounting

Information Technology on the Quality of Financial Reports so that H1 is accepted. There is a positive and significant influence on the Competency of SME Practitioners on the Quality of Financial Reports, so H2 is accepted. There is a positive and significant influence on the Understanding of Financial Accounting Standards For SMEs on the quality of financial reports, so H3 is accepted.

Table 10. Summary of Hypothesis Testing Results

	Original Sample	Sample Mean	Standard Deviation	T Statistic	P Values
Accounting Information Technology → Quality of Financial Reports	0.237	0.231	0.093	2.546	0.011
Competency of SME Practitioners → Quality of Financial Reports	0.441	0.446	0.091	4.865	0.000
Understanding of Financial Accounting Standards For SME → Quality of Financial Reports	0.299	0.300	0.086	3.460	0.001

The Effect of Accounting Information Technology on the Quality of Financial Reports

It has indicated a positive and significant effect of Accounting Information Technology on the Quality of Financial Reports. Use is the activity of using IT to make work easier. The performance that arises from the alignment factor between work and IT leads to efficiency, effectiveness and adequate quality in IT and promises a more optimal performance in IS. Optimal performance is obtained because it can satisfy the needs in carrying out tasks.

Entity theory emphasises the separation of wealth between owners and companies. Adequate accounting information technology can undoubtedly realise the principle of separation of wealth in the form of information in Financial Reports, for example, the categorisation of equity which is the deposit of the company owner and shareholder debt, which is the company's obligation to the owner. This will undoubtedly have a direct effect on the quality of financial reports.

Adequate accounting information technology also supports stewardship theory which explains that managers must prioritise the company over certain individuals. With accounting information technology, the work of an accountant will become easier so that accountants can produce output in the form of quality financial reports. The results of this study are in line with the research of Mabsutoh (2019), Firdaus (2016), Hamzah B. Uno and Nina Lamatenggo (2010) and Budiono (2018), which conclude that accounting information technology affects the quality of Financial Reports.

The Effect of SME Competency on the Quality of Financial Reports

There is a positive and significant correlation between the Competency of SME Practitioners on the Quality of Financial Reports. This result aligns with a previous study by Spencer (1993) and Becker (2004). Spencer (1993) states that the factor that makes a person able to do a job is based on competency. The better the competency by a person will improve the quality of the work

done. Becker (2004) adds that one's competency affects job performance. In this case, the respondents have good intellectual, emotional, and social competency in financial reports, which will improve the quality of financial reporting.

With the competency who are adequate, knowledgeable and have skills and good attitudes in terms of implementing financial administration, quality financial reports will be obtained and can be used as a measure of SME performance and can be used as accountability to internal and external parties of the company as well as a guideline for decision-making.

Then, with the Competency of SME Practitioners who are competent in preparing Financial Reports, they can separate personal finances from company finances, such as cash disbursements for personal expenses will not be recorded as company expenses which will worsen company performance, this is in accordance following the theory that the company's financial records must be separated from personal financial records. The results of this study are in line with research by Purwati (2014), Rudiantoro (2012), Wiranata (2015) and Sidharta (2014), which conclude that the Competency of SME Practitioners affects the Quality of Financial Reports.

The Effect of Understanding Financial Accounting Standards For SME on the Quality of Financial Reports

There is a positive and significant influence on the Understanding of Financial Accounting Standards For SMEs on the Quality of SMEs financial Reports. These results are in line with Anderson and Krathwol's (2002) theory that the knowledge that a person has can help a person's understanding in doing the tasks or work they have so that the result of the work will increase in quality.

SME understanding of SME's financial reports that are following standards certainly supports the process of implementing Financial Accounting Standards For SME as a financial report guide that can make it easier for SME to develop. An increase in understanding is very beneficial for SMEs because it will make it easier

for companies, for example, to assess company performance and assets. This is following stewardship theory which illustrates a situation when management is demotivated to achieve personal goals but instead leads to the main goal for the benefit of the company, by Good Financial Accounting Standards For SME guidelines will undoubtedly obtain quality financial reports and can be used as guidelines for the success of an entity.

Entity theory states that the company's financial records must be separate from personal financial records. Suppose an understanding of Financial Accounting Standards is adequate. In that case, a quality company financial report will be achieved guided by Financial Accounting Standards For SME, Financial Reports that are accountable, fair, reliable, comparable and understandable.

The results of this study are in line with research by Meidiyustiani (2016), Kasir (2020), Auliah and Kaukab (2019), as well as Parhusip and Herawati (2019), which concluded that understanding of Financial Accounting Standards For SME affects the Quality of Financial Reports.

Conclusion

The most significant influence is on the competence of SME practitioners. This indicates that in the preparation of financial statements, the essential thing that must be possessed is the competence of the SME practitioner. SME practitioners with adequate competence, qualified knowledge and skills, and discipline in preparing financial administration, including filing, will produce good quality financial statements

Understanding financial accounting standards for SMEs has a considerable influence in producing quality financial reports. This illustrates that it is essential to understand SMEs' most appropriate accounting standards to produce quality financial reports and the preparation. The reports must be guided by standards that are adapted information technology also contributes significantly. The use of accounting technology information such as accounting computer applications will facilitate the preparation of

financial reporting more efficiently and effectively. Sound financial reporting is the basis for decisions and accountability for the company's management and a reference for creditors to provide loan funds for SMEs.

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