

Analysis of the Influence of the Ability to Prepare Financial Reports, Financial Literacy and Financial Inclusion on the Financial Performance of MSMEs

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ABSTRACT: Improving community welfare can be achieved by improving the performance of small and medium scale businesses because MSMEs can be a forum for the majority of society to meet their needs. This research aims to analyze the influence of the ability to prepare financial reports, financial literacy and financial inclusion on the financial performance of MSMEs. This research was descriptive research. This research is classified as quantitative research by utilizing data obtained from 100 respondents consisting of MSME units. The data collection stage was carried out with instruments in the form of questionnaires and tests. The results of the analysis show that the ability to prepare financial reports, financial literacy, and financial inclusion partially have a positive and significant influence on the financial performance of MSMEs. Another interesting finding is that the analysis carried out simultaneously shows that the ability to prepare financial reports, financial literacy, and financial inclusion have simultaneously significant positive influence on the financial performance of MSMEs in Medan City. The results of this research are very important for assessing the situation and future prospects of MSMEs in this country. The implications of this research encourage the development of strategies and policies that can improve the ability to prepare financial reports, optimize financial literacy, financial inclusion and encourage MSME financial management behavior so that it can improve the financial performance of MSMEs, which in turn will improve the welfare and sustainable growth of the MSME sector.

Keywords: Financial Reports, Inclusion, Literacy, Performance



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INTRODUCTION

Improving the economic welfare of society can be achieved through various efforts. One way is to improve the performance of small and medium scale businesses or better known as MSMEs which can be a forum for the majority of society to meet their needs. Improving the economic welfare of society can be achieved through various efforts. One way is to improve the performance of small and medium scale businesses or better known as MSMEs which can be a forum for the majority of society to meet their needs. The MSME sector has a fairly large role, strongly supporting economic development ([Saskia & Yulhendri, 2020](#)). The Ministry of Cooperatives and SMEs (Kemenkop UKM) recorded complete data on MSMEs in 2022, there were 9.09 million micro, small and medium enterprises (MSMEs) in this country. During the C19 pandemic, many people around the world, including Indonesia, experienced economic difficulties, including experiencing unemployment and layoffs, people's income decreased drastically, as well as difficulties in accessing finance, etc. Until now, the government continues to make efforts to overcome employment problems. One medium that can be used as a solution to deal with this is creating jobs independently by forming new entrepreneurs through the MSME program ([Ilarrahmah & Susanti, 2021](#); [Meiwanto Doktoralina et al., 2018](#); [Sujana et al., 2020](#)). Although in general, MSMEs often experience delays in their development because MSMEs tend to have a short-term orientation ([Hilmawati, 2021](#)). The Ministry of Cooperatives and SMEs noted that the contribution of MSMEs reached 61% of Indonesia's GDP, with labor absorption 97% of the total national labor absorption in 2023. The number of business actors in the MSME sector was recorded at 67 million.

This research aims to get an overview of the situation of MSMEs after the C19 pandemic specifically in Medan City. Medan City was chosen with the consideration that Medan City experienced quite significant growth in MSMEs before the pandemic. The city of Medan experienced quite a big impact due to the economic crisis of the C19 Pandemic, the increase in MSMEs is increasing very quickly in the city of Medan ([Damayanti et al., 2022](#)). To encourage economic improvement and growth, it is necessary to promote and develop MSMEs ([Hutabarat, Judijanto, et al., 2023](#)) and optimize the existence of MSMEs ([Pardede & Trimurni, 2023](#)). Before the C19 pandemic, the number of Micro, Small and Medium Enterprises (MSMEs) in Medan City was quite significant. Based on data from the Medan City Cooperatives and SMEs Service, in 2019, there were around 41,000 MSMEs spread across various sectors such as trade, processing industry, services and others. The important role of MSMEs in Medan in the local economy can provide employment opportunities and contribute to regional income. During the C19 pandemic, many MSMEs in Medan City experienced difficulties, and some were even forced to close temporarily or permanently, resulting in a decline in MSMEs. This brings big challenges. However, not all MSMEs experienced a decline. However, not all MSMEs experienced a decline. Several MSMEs demonstrated resilience and adaptability in facing crisis situations, and succeeded in adapting to new situations through innovation and digitalization. So there are 38,343 MSMEs registered in the Medan City MSME Cooperative and MSME Data Collection System (SIMDAKOP) application based on final data for 2022.

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This research aims to analyze the influence of the ability to prepare financial reports, financial literacy and financial inclusion on the financial performance of MSMES. The results of this research are very important for assessing the situation and prospects of MSMEs in Medan City. This research was descriptive research. This research is classified as quantitative research by utilizing data obtained from 100 respondents consisting of MSME entrepreneurs. The data collection stage was carried out with instruments in the form of questionnaires and tests ([Kim et al., 2022](#); [Umar et al., 2018](#)).

The financial performance of MSMEs still needs to be considered due to the many challenges. This needs to be considered so that the financial performance of MSMEs increases in the city of Medan. Most MSMEs also feel that their business is running well and normally. In reality, many MSMEs are not developing well ([Munthay & Sembiring, 2024](#)). Lack of training and skills development for MSME workers results in low productivity and service quality. Some MSME entrepreneurs only prioritize operational activities, and focus on ways to increase sales by increasing sales inventory without the ability to prepare financial reports. The ability to prepare financial reports is very important for Micro, Small and Medium Enterprises (MSMEs). With good financial reports, MSMEs can evaluate the financial performance of an MSME, make more appropriate business decisions, and ensure business sustainability. Some of the main benefits of preparing financial reports for MSMEs are monitoring financial performance through profit and loss reports, balance sheets, better decision making, measuring business growth, and measuring business growth.

Financial knowledge is still minimal. So many MSMEs in Medan City still operate with thin profit margins due to high operational costs and competition. Whether we realize it or not, there is intense competition in competition with large companies and other MSMEs. This was discovered by finding that the educational background of several MSME employees was not optimal. There are MSME owners who do not realize the importance of investing in employee self-development as human resources. Financial performance requires MSMEs to continue to innovate and improve the quality of products and services. Without the right strategy, MSMEs will be unable to compete. However, in terms of market share percentage, many MSMEs have succeeded in controlling certain industries. Increasing market share shows good performance in facing competition. MSMEs that have good access to external financing such as bank loans or venture capital usually have more stable financial performance.

The financial performance of MSMEs has several indicators such as net profit, liquidity, solvency, operational efficiency and profitability ([Putri et al., 2023](#)). Improving the performance of MSMEs can be hampered by problems in accounting and management, forgetting to record transactions, especially at the stage of preparing financial reports, because they often focus on business operational activities ([Ilarrahmah & Susanti, 2021](#)). The financial performance in question is the sum total of the work carried out and how it compares with the work results, targets, targets or criteria for changing business entities and other assets that have been determined and mutually agreed upon ([Ahmad et al., 2023](#)). Developing the performance of MSMEs is not an easy thing to do, the difficulty in measuring performance is a problem for entrepreneurs in evaluating

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performance. This is because MSME entrepreneurs focus a lot on their operational activities so that accounting records and financial reporting are often neglected ([Whetyaningtyas & Mulyani, 2016](#)). The performance achieved will certainly support the company's financial development and national economic growth ([Hutabarat, 2021](#)). Business performance can be known periodically, making it easier to evaluate and make business decisions ([Piter et al., 2024](#)). Good financial performance shows that MSMEs are able to generate stable profits, manage debt well, and have a strong financial position ([Sofyan, 2017](#)).

The ability to prepare financial reports possessed by MSME actors in this research is more emphasized on intellectual ability ([Whetyaningtyas & Mulyani, 2016](#)). The ability to prepare financial reports referred to in this research is intellectual ability, with the level of intelligence differentiates a person's way of solving work problems, which can best be demonstrated by his intellectual abilities, because he has the agility to develop his own skills. Therefore, an entrepreneur who is able to make financial reports correctly will ultimately result in increasing business achievements ([Ilarramah & Susanti, 2021](#)).

MSME financial literacy is the understanding and skills needed by MSME owners or managers to manage the financial aspects of their business well. MSME financial literacy is very important because it can help them in making wise decisions, managing financial resources and sustainable business growth ([Putri et al., 2023](#)). Financial literacy is knowledge in applying understanding, a person's ability to measure financial concepts and risks, skills to be able to make effective decisions in a financial context so that financial management is carried out in accordance with good accountability principles and has an influence on improving financial well-being, both individual and social, and can participate in the community environment. Financial literacy is an important part of a person's life because it allows a person to make the right financial decisions ([Hartina et al., 2023](#)). Financial literacy is knowledge in applying one's understanding and abilities who can measure financial concepts and risks, skills to be able to take effective decisions in a financial context so financial management is carried out in accordance with the principles of good accountability and has influence in increasing financial well-being, both individual and social, and being able to participate in the community environment ([Triana & Syera, 2023](#)).

The Financial literacy index in 2022 is projected to be only 49.68%, according to the findings SNLIK (2022) (National Survey of Financial Literacy and Inclusion) means the low level of public understanding of using financial services or services which causes unstable and undeveloped business conditions. This is a current phenomenon, business people are often faced with various problems ([Ahmad et al., 2023](#)). Even though it has a larger number of MSMEs than several other countries, Indonesia is a country with a relatively low level of financial literacy. Financial Literacy is knowledge and understanding of various financial fields. Lack of financial literacy can cause a person to make inappropriate decisions and can even have negative consequences on a person's financial well-being ([Ilarramah & Susanti, 2021](#)). Financial literacy is a person's understanding and ability to manage personal or business finances well. Meanwhile, MSMEs are a business sector that plays an important role in a country's economy. The influence of financial literacy on the financial performance of MSMEs can be very significant ([Putri et al., 2023](#)).

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Apart from financial literacy, another factor that can influence financial performance is financial inclusion. To increase the number of MSMEs, there is a need for guidance to support the performance of MSMEs by providing an understanding of financial literacy and financial inclusion ([Fajri et al., 2021](#)). The financial inclusion index in 2022 is projected to reach 85.10%, according to the findings of SNLIK (2022) (National Survey of Financial Literacy and Inclusion) ([Ahmad et al., 2023](#)). Financial inclusion is an effort to ensure that diverse individuals and groups in society have access to financial services that are meaningful, affordable and appropriate to their needs. Financial inclusion aims to reduce financial inequality and increase public participation in the financial system, including banking, insurance, investment and other financial services. This is a concept that encourages financial access for all, regardless of income level, geographic location, or social background ([Yanti, 2019](#)). The implementation of financial inclusion will open up access for poor people who do not have collateral, do not have permanent, trustworthy work, and are unable to obtain credit to financial services including savings, credit, payments and insurance ([Lumenta & Worang, 2019](#)). The financial inclusion strategy is not an isolated initiative, so involvement in financial inclusion is not only related to the duties of Indonesian banks, but also regulators, ministries and other institutions in efforts to provide financial services to the wider community ([Mali, 2023](#)). Financial inclusion means that individuals can freely enter to a good financial institution by considering things like accuracy time, comfort, security and smoothness ([Fauziah et al., 2024](#)). Financial inclusion aims to reduce financial disparities that may exist between groups in society. By allowing more people to participate in the financial system, financial inclusion can help reduce inequality. Financial inclusion can increase the economic independence of individuals and families ([Putri et al., 2023](#)).

This research is important to carry out because we want to improve the financial performance of MSMEs, increasing managerial capacity, namely the ability to prepare financial reports, is an important part of financial management, this research can show how access or limited access to financial services will help identify knowledge and skills gaps among MSME actors, which can be used as a basis for designing more effective training and capacity building programs, can also provide insight into the extent to which financial literacy influences MSME financial performance. Overall, this research has the potential to make a significant contribution to economic development through improving the performance of MSMEs, which will ultimately have a positive impact on inclusive and sustainable economic growth.

Previous research conducted ([Alamsyah, 2020](#)) using the dependent variable, namely financial literacy on SME Financial Performance. Previous research in Gorontalo City. The novelty of this research is adding two dependent variables, including ability to prepare financial reports and financial inclusion, so that there are three variables, namely ability to prepare financial reports, financial literacy and financial inclusion. This research was conducted on MSMEs from January to February 2024 in Medan City.

Based on the background, there are research questions as follows: is the ability to prepare financial reports positive effect on the financial performance of MSMEs in Medan City? Does financial literacy have a positive effect on the financial performance of MSMEs in Medan City? Does

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financial inclusion have a positive effect on the financial performance of MSMEs in Medan City? Does the ability to prepare financial reports, financial literacy and financial inclusion have a positive effect on the financial performance of MSMEs in Medan City?

Thus, the aim of the research is to analyze and review the influence of ability to prepare financial reports on the financial performance of MSMEs in Medan City. To find out the influence of financial literacy on the financial performance of MSMEs in Medan City. Another objective is determining financial inclusion on the financial performance of MSMEs in Medan City. Another interesting objective of the researcher is to investigate to find out and analyze whether there is a relationship between the ability to prepare financial reports, financial literacy and financial inclusion on the financial performance of MSMEs in Medan City.

This research method is classified as an associative quantitative research type, namely research on causal relationships of three or more independent variables and a dependent variable to see the influence between the independent and dependent variables (Ilarramah & Susanti, 2021). The conceptual framework is a description of the variable concepts that will be used in a research, which connects the influence between the independent and dependent variables in this research which can be described in a conceptual framework (Tarigan et al., 2023). Based on the results of previous research and theoretical studies, the conceptual framework in this research is as follows:

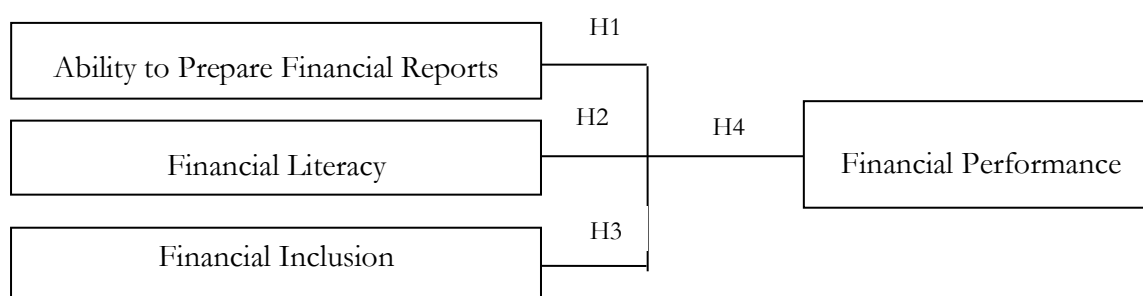


Figure 1. Conceptual Framework

Ability to Prepare Financial Reports and Financial Performance MSMEs

MSME entrepreneurs who have the ability to prepare financial reports properly in accordance with financial accounting standards will be wiser in channeling the funds they have to advance their business and become calculation data in determining how much capital must be spent and how much profit they will get (Winarso & Kurniawati, 2022). Previous research examined by (Rinofah et al., 2022) stated that the ability to prepare financial reports variable had a positive and significant influence on the financial performance variable.

H1: Ability to prepare financial reports positive and significant effect on financial performance MSMEs carried out by MSME entrepreneurs MSMEs in Medan City.

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Financial Literacy and Financial Performance MSMEs

Financial literacy is very important, MSMEs clearly need to learn financial literacy so they can manage their finances effectively. Without good financial literacy, these MSMEs cannot make the right management decisions based on their financial situation ([Saskia & Yulhendri, 2020](#)). Previous research researched by ([Kasendah & Wijayangka, 2019](#)) states that the financial literacy variable has a positive and significant effect on the financial performance variable.

H2: Financial literacy positive and significant effect on financial performance MSMEs carried out by MSME entrepreneurs MSMEs in Medan City.

Financial Inclusion and Financial Performance MSMEs

Financial inclusion is needed by MSME players to get convenience in everything business processes. One supporting factor for a business is capital ([Mali, 2023](#)). Previous research conducted by ([Ahmad et al., 2023](#)) stated that the financial inclusion variable had a positive and significant effect on the financial performance variable.

H3. Financial inclusion positive and significant effect on financial performance MSMEs carried out by MSME entrepreneurs MSMEs in Medan City.

Ability to prepare financial reports, financial literacy, and financial inclusion in this research, the three variables will be carried out simultaneously and their relationship will influence the financial performance variable.

H4: Ability to prepare financial reports, financial literacy, and financial inclusion simultaneously positive and significant effect on financial performance MSMEs carried out by MSME entrepreneurs MSMEs in Medan City.

Research about the influence of the ability to prepare financial reports, financial literacy and financial inclusion on the financial performance of MSMEs has been carried out by many previous researchers. Research result by ([Triana & Syera, 2023](#)) showed that the influence of the ability to prepare financial reports positively wasn't significantly on the financial performance of MSMEs, financial literacy is a factor that positively and significantly influences the financial performance of MSMEs in Asahan District, but financial inclusion negative wasn't significant on the financial performance of MSMEs in Asahan District. Besides that research result by ([Marini et al., 2024](#)) that financial literacy is a factor that positively wasn't significant influences the financial performance of MSMEs, financial inclusion negative wasn't significant on the financial performance of MSMEs in Bengkulu City. Research the influence of the ability to prepare financial reports, was a factor that has a positive and significant influence on the financial performance of MSMEs, financial literacy was a factor that positively and significantly influences the financial performance of MSMEs in Babat District, discovered by ([Ilarrahmah & Susanti, 2021](#)). Further research revealed the influence of financial literacy significant positive effect on the financial performance in Gorontalo City, and financial inclusion significant positive effect on the financial performance in Gorontalo City found by ([Ahmad et al., 2023](#)). Research that the influence of financial literacy and financial inclusion significant on the financial performance in Cilegon City, has been discovered by ([Hasanudin & Rahmiyanti, 2023](#)). Research conducted ([Lumenta & Worang, 2019](#)) which states that financial inclusion affects financial performance.

METHOD

This research method is quantitative research, testing hypotheses using statistics in the form of numbers and analyzing descriptively. Research was conducted on MSMEs in Medan City. The population of this research is micro, small and medium enterprises in Medan City who are registered on the 2022 Medan City UMKM SIMDAKOP application, totaling 38.343 MSMEs. The variables tested in the research include financial performance as the dependent variable, and financial performance, financial literacy, and financial inclusion as the independent variables. The sample selection technique uses simple random sampling technique. This technique is used because the population in this study is quite large, so with this sampling technique every member of the population has the same opportunity to become a sample. The sample size for this research was determined using the Slovin formula. In quantitative research with many samples using the Slovin formula. So the population is $N = 38.343$ assuming an error rate e (margin of error) of 10%. So the total sample that must be used in this research is as large as the Slovin formula calculation:

$$n = \frac{N}{1 + N e^2}$$

$$n = \frac{38.343}{1 + 38.343 (10\%)^2}$$

$$n = 97.458 \text{ rounded to } 100$$

So, the calculation above to find out the sample size with an error rate of 10% is as many as 97.458 which is rounded up to 100 respondents. Based on the calculation results, it is known that the sample used for research is 100 MSME units.

This research data uses primary data. Data was obtained by utilizing data obtained directly through surveys and respondents' answers to questionnaires, which were distributed directly to respondents. Respondents' perceptions were measured using likert scale, consisting of five categories, namely strongly disagree (1), disagree (2), disagree (3), agree (4), and strongly agree (5). The analytical method processes data to determine validity and reliability test. Multiple linear regression statistical analysis tools were used and the classical assumptions of this research were tested using data processing with the IBM SPSS Statistics 26 program. The data analysis method used in the research is the multiple linear regression analysis method. Hypothesis testing uses an individual parameter significance test tool, namely the t statistical test. At the same time, through the F test, it is also necessary to test the determinant coefficient (R^2).

RESULT AND DISCUSSION

The results of validity testing are known in each Sig result statement. (2-tailed) below 0.05 which was obtained based on the criteria $r_{count} > r_{table}$ (0.196). So, as a result of testing the validity of this research, it is known that each statement on each variable indicator of ability to prepare

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financial reports, financial literacy and financial inclusion on financial performance meets the criteria for valid data.

Reliability testing was carried out using cronbach alpha, in order to determine the reliability of the statements of the entire questionnaire.

Table 1. Reliability Test

Variable	Cronbach's Alpha	Description
Financial Performance	0.602	Reliabel
Ability to Prepare Financial Reports	0.722	Reliabel
Financial Literacy	0.795	Reliabel
Financial Inclusion	0.610	Reliabel

Source: Data processed (2024)

This test shows cronbach alpha result for the financial performance variable of 0.602. The ability to prepare financial reports variable is 0.722 and the financial literacy variable is 0.795 and financial inclusion is 0.610. Each cronbach alpha value is ≥ 0.600 so the questionnaire is said to be consistent. So it can be concluded that if it meets cronbach alpha credibility, it is declared reliable.

Test the classic assumption of data normality using the One-Sample Kolmogorov-Smirnov Test.

Table 2. Normality Test Results

	Asymp. Sig. (2-tailed)	Description
Model	0.200	Normally distributed

Source: Data processed (2024)

The test results obtained sig. probability, namely the Asymp value statistic. Get a Sig of 0.200 > 0.05 so the results obtained prove that the research data here is normally distributed.

The multicollinearity test which aims to determine the relationship between the regression models is in the research, namely if the VIF < 10 and the tolerance value > 0.1 then multicollinearity does not occur (Hutabarat, Silalahi, et al., 2023).

Table 3. Multicollinearity Test Results

Variable	Colinearity Statistics		
	Tol.	VIF	Description
Ability to Prepare Financial Reports	0.837	1.194	No multicollinearity
Financial Literacy	0.802	1.247	No multicollinearity
Financial Inclusion	0.858	1.166	No multicollinearity

Source: Data processed (2024)

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This multicollinearity test finds the tolerance value for the ability to prepare financial reports is 0.837 followed VIF 1.194. Meanwhile, the financial literacy is the tolerance value is 0.802 followed VIF 1.247. The tolerance value for the financial inclusion is 0.858 followed VIF 1.166. Based on these results can be seen that each tolerance value variables above are > 0.1 and VIF are less than 10. So it can be concluded that there is no multicollinearity on the research model.

Statistical analysis of the research was also carried out by the heteroscedasticity test using the Glejser Breusch-Pagan test. A significance probability greater than 0.05 is required.

Table 4. Heteroscedasticity Test Results

Variable	Sig.	Description
Ability to Prepare Financial Reports	0.065	No Heteroscedasticity
Financial Literacy	0.765	No Heteroscedasticity
Financial Inclusion	0.983	No Heteroscedasticity

Source: Data processed (2024)

In the current test results, the ability to prepare financial reports is 0.065, the financial literacy is 0.765, and the financial inclusion is 0.983. There is no heteroscedasticity.

Multiple Linear Regression Analysis

Analysis of the Influence of the Ability to Prepare Financial Reports, Financial Literacy and Financial Inclusion on the Financial Performance can be explained through multiple linear regression tests. Multiple regression analysis was performed in order to analyze the current research hypothesis submission. The results of the multiplication of this regression analysis were carried out using the SPSS 26 method. This research aims to determine the regression equation or the influence between ability to prepare financial reports (X_1), financial literacy (X_2), financial inclusion (X_3), and financial performance (Y). The results of multiple linear regression analysis can be seen in table 5. as follows:

Table 5. Multiple Linear Regression Analysis Results

Coefficients ^a		
Variable	B	Sig.
(Constant)	6.412	0.006
Ability to Prepare Financial Reports	0.209	0.004
Financial Literacy	0.140	0.001
Financial Inclusion	0.457	0.000

Source: Data processed (2024)

Through the results of multiple linear regression obtained, it is now known that the multiple linear regression equation with the following equation:

$$FP = 6.412 + 0.209APFR + 0.140FL + 0.457FI + e$$

Information:

1. The constant has a value of 6.412. Means, if the independent variable is not experience a change in value, then the financial performance is worth 6.412.
2. Ability to prepare financial reports variable regression coefficient is 0.209. This means, ability to prepare financial reports has positive effect on financial performance. If the other independent variables do not change, then every increase of 1 unit CR, it will increase financial performance is 0.209.
3. Financial literacy variable regression coefficient of 0.140. This means, financial literacy has a positive influence on financial performance. If other independent variables do not experience change in value, then each increase of 1 unit financial literacy will increase the financial performance of 0.140.
4. The regression coefficient of the financial inclusion variable is 0.457. That is, financial inclusion has positive influence in the financial performance. If other independent variables do not experience change in value, then each increase of 1 unit financial inclusion will increase the financial performance of 0.457.

Hypothesis Testing

Test the hypothesis when this research is carried out by t test and F test.

Partial test (t test)

Based on the results of the t test, and testing the hypothesis is as follows:

1. Ability to prepare financial reports have significant to the financial performance.
It can be seen that ability to prepare financial reports have significant value of 0.004. This significance value is less than 0.05. So can be concluded that ability to prepare financial reports is significant on the financial performance.
2. Financial literacy have significant to the financial performance.
It can be seen that financial literacy have significant value of 0.001. This significance value is less than 0.05. So concluded that financial literacy is significant on the financial performance.
3. Financial inclusion have significant to the financial performance.
It can be seen that financial inclusion have significant value of 0.000. This significance value is less than 0.05. It can be concluded that financial inclusion is significant on the financial performance.

Simultaneous test (F test)

Simultaneous test is carried out to determine the effect of the independent variable simultaneously on the dependent variable. This is also called an ANOVA test.

Table 6. Simultaneous test

F	Sig.
26.783	0.000 ^b

Source: Data processed (2024)

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The calculated F test was obtained at 26,783. From the results of simultaneous tests, the results were that its significant value is 0.000. Significance value < 0.05 . So it is known that ability to prepare financial reports, financial literacy, and financial inclusion have simultaneously significant positive influence on the financial performance.

Coefficient of determination analysis

The determination test was carried out to find out how well the regression model was produced by the interaction between the independent variables and the dependent variable. This is shown via Adjusted R - Squared value (R²).

Table 7. R Square Result

Model	R Square
1	0.456

Source: Data processed (2024)

The result of R Square value researched at this time were obtained at 0.456 or 45.6%. As for the ability to prepare financial reports, financial literacy, and financial inclusion variables can explain the financial performance variable on micro, small and medium enterprises in Medan City by 45.6% while the remaining 54.4% is explained by other variables not explained in this research.

The Influence of Ability to Prepare Financial Reports on Financial Performance

The results of statistical testing on the t-test show that ability to prepare financial reports has a t-count value of 2.992 with a significance level of $0.004 < 0.05$, which means that ability to prepare financial reports affects on financial performance. The result support previous research conducted by ([Ilarrahmah & Susanti, 2021](#)), ([Whetyaningtyas & Mulyani, 2016](#)) which states that ability to prepare financial reports affects financial performance.

The Influence of Financial Literacy on Financial Performance

The results of statistical testing on the t-test show that financial literacy has a t-count value of 3.323 with a significance level of $0.001 < 0.05$, which means that financial literacy affects on financial performance. The result support previous research conducted by ([Ilarrahmah & Susanti, 2021](#)), ([Triana & Syera, 2023](#)), ([Hasanudin & Rahmiyanti, 2023](#)), and ([Ahmad et al., 2023](#)) which states that financial literacy affects financial performance.

The Influence of Financial Inclusion the on Financial Performance

The results of statistical testing on the t-test show that financial inclusion has a t-count value of 4.647 with a significance level of $0.000 < 0.05$, which means that financial inclusion affects on financial performance. The influence of financial inclusion on the financial performance of MSMEs can be very positive ([Ahmad et al., 2023](#)). Financial inclusion refers to efforts to expand the access of individuals and businesses, including MSMEs, to financial services such as banking, loans, insurance and investment. The main impact of financial inclusion is to provide better access to loans and financing for MSMEs. The result support previous research conducted by ([Ahmad et](#)

[al., 2023](#)), ([Hasanudin & Rahmiyanti, 2023](#)), ([Rosliyati, 2022](#)), and ([Laila & Sihotang, 2022](#)) which states that financial inclusion affects financial performance.

The Influence of Ability to Prepare Financial Reports, Financial Literacy, and Financial Inclusion on Financial Performance

This research has carried out simultaneous testing through the F test. The results of empirical evidence show that the ability to prepare financial reports, financial literacy, and financial inclusion together have a positive and significant effect on financial performance, carried out by MSME entrepreneurs in Medan City. The results of this research show that the three independent variables, namely ability to prepare financial reports, financial literacy, and financial inclusion together have a positive and significant influence on the dependent variable financial performance MSME in Medan City.

CONCLUSION

Based on the results of the analysis that has been carried out, several important conclusions have been obtained, namely that the ability to prepare financial reports partially has a positive and significant effect on the financial performance of MSMEs. Financial literacy partially has a positive and significant effect on the financial performance of MSMEs in Medan City. Financial inclusion was found to have a partial positive and significant effect on the financial performance of MSMEs. Another interesting finding is that the analysis carried out simultaneously shows that the ability to prepare financial reports, financial literacy, and financial inclusion have simultaneously significant positive influence on the financial performance of MSMEs in Medan City. The implications of this research encourage the development of strategies and policies that can improve the ability to prepare financial reports, optimize financial literacy, financial inclusion and encourage MSME financial management behavior so that it can improve the financial performance of MSMEs, which in turn will improve the welfare and sustainable growth of the MSME sector.

This research contributes to providing a deeper understanding of the complexity of the relationship between the ability to prepare financial reports, financial literacy, and financial inclusion and financial performance of MSMEs. Therefore, this research suggests that the government, organizations or related institutions can develop education and training programs aimed at increasing financial literacy and the ability or skills to prepare financial reports, as well as providing efficient and adaptive financial management practices in accordance with specific needs for the development and welfare of MSMEs.

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