



The Effect of Management Knowledge Influences the Preparation of MSMEs Financial Statements

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ABSTRACT: The rapid development of the MSME sector shows that there is great potential if this can be managed and developed well which will certainly be able to create strong micro, small and medium enterprises. The main problem in developing MSMEs is related to presenting financial reports. The inability to present quality financial reports is one of the weaknesses of management. This condition also occurs among MSME business actors in Banjarmasin. This has an impact on the difficulty of MSME actors in evaluating their operational performance. There is still not much research related to management knowledge in preparing financial reports for MSME players. So the aim of this research is to analyze how management knowledge influences the preparation of MSME financial reports in Banjarmasin City. The population of this research is MSMEs registered with the Banjarmasin City Cooperative and Industrial Service. Takes the form of a descriptive quantitative approach. The method used is Linear Regression, namely testing the Goodness and Fit Model, the feasibility of this model can be seen in the determination test (R-Square) and F Test. The results of the hypothesis test state that management knowledge influences the preparation of MSME financial reports in Banjarmasin City with a significance value (Sig) is 0.000. The influence of management knowledge on the preparation of financial reports is 45.7%.

Keywords: Knowledge Management, Preparation of Financial Statements, MSMEs.



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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are one of the sectors that are important to the economic recovery process. MSMEs have specific features that can be considered unique, as their numbers dominate the structure of Indonesia's economy and continue to increase each year.

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MSMEs make a substantial contribution, accounting for around 61% of the national Gross Domestic Product (GDP) and employing 97% of the total workforce (www.ekon.go.id). The rapid development of the MSME sector demonstrates the immense potential that can be harnessed and developed effectively to make up resilient micro, small, and medium enterprises. However, on the other side hand, MSMEs still face challenges, particularly in administrative processes. The primary issue in the development of MSMEs is related to financial management within their businesses. Presenting financial statements becomes a distinct challenge for MSMEs ([Baihaqi, 2016](#)).

A similar situation is observed among MSMEs in Banjarmasin City. The inability to present quality financial statements also constitutes a managerial weakness. The researcher's observations of several MSMEs in Banjarmasin City reveal that some business owners do not utilize financial statements as decision-making considerations. These MSME entrepreneurs often focus solely on operational activities, neglecting transaction recording and financial statements. However, without proper financial statements, evaluating operational performance becomes challenging for these entrepreneurs ([Ilarrahmah & Susanti, 2021](#)). The financial condition of a company, both present and future, can be indicated through financial statement data ([Kasmir, 2008](#)). Financial statements are essential to create, as they provide crucial information that aids business success. In essence, financial statements are a record of the operational results carried out over a specific period. The purpose of financial Statements is to offer information for decision-makers within the company ([Rostikawati & Pirmaningsih, 2019](#)).

Harahap's study on MSMEs capable of preparing financial statements according to accounting standards indicates that those individuals are wiser in allocating funds to advance their business and in determining the required capital and expected profits ([Harahap, 2014](#)). Similarly, [Nurlaela \(2015\)](#) discovered that MSMEs' capacity to create financial statements had no meaningful influence on their performance. At that time, awareness of financial statement preparation among MSME entrepreneurs was limited and insufficient. [Winarso \(2022\)](#) also states that the capacity for preparing financial statements among MSMEs remains low, with a lack of accounting knowledge being one of the contributing factors ([Mubarak et al., 2023](#); [Nurohmah, 2023](#)). Accounting knowledge involves systematically understanding how to record, classify, and summarize transactions while providing relevant and reliable information for enhancement ([Ballou et al., 2018](#)). For management to compile financial statements, knowledge and understanding of financial statements are essential.

Knowledge management is a strategic capability for companies in effectively handling information and knowledge ([Rowley, 1999](#); [Tukamuhabwa & Namagembe, 2023](#)). Knowledge management drives organizations to organize their efforts to achieve their goals and ensure long-term growth and business sustainability ([Setiyono et al., 2022](#)). According to research by [Fadilah \(2019\)](#), effective financial management is supported by competent human resources, encompassing educational backgrounds, financial expertise, and a commitment to continuous training. Furthermore, accounting knowledge is crucial in financial statement preparation. In line with research carried out by [Devi et al., \(2017\)](#) high level of accounting knowledge leads to the production of higher-quality financial statements. MSME entrepreneurs' attitudes and

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understanding of accounting have a considerable impact on the adoption of microentity accounting standards (SAK EMKM) ([As'adi & Chalimi, 2020](#)).

Given the background presented, the research problem stems from the fact that management, in the process of financial statement preparation, requires knowledge and understanding related to financial statements. The research question formulated for this study is as follows: "How does management knowledge influence the preparation of financial statements for MSMEs in Banjarmasin City?"

Behavioral Accounting Theory emerged around 1952, but gained widespread recognition around 1962. Initially, this theory emphasized managerial accounting aspects, particularly budgeting. However, over time, it expanded to include accountability, Financial Information Systems, Accounting, and Auditing ([Ardiansyah, 2009](#)). This theory must meet the characteristics of human behavior to be considered scientific. This concept involves systematic observation of human behavior to form experimental hypotheses by illustrating observable behavior changes ([Arfan, 2010](#)). One of the issues in SMEs development is the preparation of financial statements. The inability to present quality financial statements is a management weakness in SMEs. Some SMEs in Banjarmasin City even do not use financial statements for decision-making. They tend to focus on operational activities without involving transaction recording and financial statement preparation. However, financial statements play a vital role in evaluating operational performance ([Ilarrahmah & Susanti, 2021](#)).

Financial statements have a significant role in showing the company's financial condition. It is a tool used to understand profit and loss, be responsible for management, and make sound and accurate decisions. The preparation of financial statements is a very important performance measurement tool. Without proper accounting recording and reporting, assessing MSME performance will be difficult ([Zarefar et al., 2021](#)). Financial statements are not only a business communication tool, but also a basis for timely decision making and management responsibility ([Winarso & Kurniawati, 2022](#)). However, the characteristics of the information conveyed through the financial statements mechanism can affect the objectives of financial statements ([Nurlaela, 2015](#)), and the ability of MSMEs to prepare financial statements also affects the quality of the information conveyed.

Management knowledge is an integral part of organizational activities to identify, create, explain, and distribute knowledge that can be reused within the organization ([Meylananda et al., 2021](#)). Knowledge management is the systematic capture, description, organization, and sharing of knowledge in order to make it valuable, reusable, and adaptable. ([Gao et al., 2018; Torabi et al., 2016](#)). In the context of accounting, accounting knowledge is the expertise possessed by SME actors in managing accounting ([As'adi & Chalimi, 2020](#)). Management and accounting knowledge influence financial statements preparation, and aspects such as broad financial statement comprehension, the benefits and functions of financial statements, financial statements skills acquired from education, and knowledge of types of financial statements ([Hernawati et al., 2019](#)). Play a part in applying managerial expertise to financial statements in MSMEs. In facing the challenges of preparing financial statements, understanding and knowledge of management are

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key factors. Accounting knowledge plays a crucial role in preparing accurate and relevant financial statements. It also provides tools for MSMEs actors to make better decisions and effectively manage their businesses (Koswara, 2014). Understanding accounting is also essential for applying accounting principles correctly within the company and can support accurate financial statements recording (Risal, 2020).

Research Hypothesis

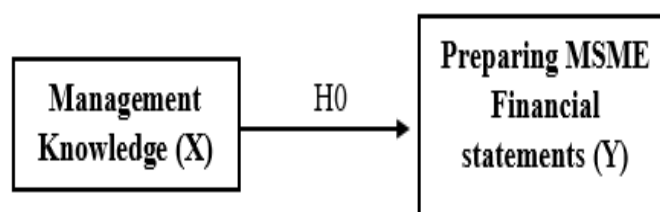
Accounting is essential for Micro, Small, and Medium Enterprises (MSMEs) to efficiently manage their operations. The possession of accounting knowledge by MSMEs owners can facilitate the implementation of financial statements in each business unit (Risal & Kristiawati, 2020). Furthermore, a significant positive correlation was found between accounting understanding and the implementation of financial statements in MSMEs (Muslim & Sufina, 2018). The study conducted by Whetyningtyas & Mulyani (2016) claimed that the capacity to compile financial statements can improve MSMEs' operational performance. These findings are consistent with Satiya et al. (2020) research, which found that accounting expertise influences financial statement preparation in the context of Micro and Small Enterprises Financial Accounting Standards (SAK EMKM).

Preparing financial reports requires accounting knowledge possessed by management/managers, to produce financial reports to the authorities regarding company activities (Putra A, 2018). If an owner/leader understands accounting knowledge, he will certainly be able to prepare a financial report (Cahya et al., 2021). Business actors' knowledge in applying accounting to companies is a motivation to learn about accounting (Satiya et al., 2020). Based on the theoretical basis of management knowledge in preparing MSME financial reports, based on the description of the theoretical study above in accordance with the objectives and problems raised, the hypothesis proposed in this research is as follows:

H0: Management knowledge directly influences the preparation of financial statements in MSMEs in Banjarmasin City.

Based on the hypothesis above, a conceptual framework for this research was prepared which is shown in Figure 1:

Figure 1. Conceptual Framework for Research The Impact of Management Knowledge on MSME Financial Statement Preparation in Banjarmasin City



METHOD

Research Type

This study used a quantitative descriptive research design. This study made use of both primary and secondary data sources. The population under research consists of Micro, Small, and Medium Enterprises (MSMEs) registered with the Banjarmasin City Department of Cooperatives and Industry. There are 74 registered MSMEs in total. The researcher used a census sampling approach, which included all eligible respondents in the sample.

Method of Data Collection

Data for this study were gathered via a Google Forms questionnaire or survey that used a Likert scale. The Google Forms link was sent to the responders in order for them to participate.

Method of Data Analysis

Linear Regression was used to analyze the data in this study, which was carried out using SPSS 23 software. There are various steps to the analytical process. To begin, the quality of study data is evaluated using validity and reliability tests. Second, traditional assumption tests such as heteroskedasticity, multicollinearity, and normality are run. Third, a basic regression equation analysis is performed to determine the "fit" or acceptability of the hypothesis. The t-test and the coefficient of determination (R-Square) are the two major tests for determining model appropriateness.

RESULT AND DISCUSSION

Validity test

Product occurrence The validity test of this study used the Pearson correlation technique with a 5% significance level. Where the test looks at the correlation coefficient (r_{xy}), which expresses the link between the scores of the question items and the total score (item-total correlation). If the r-count findings are larger than the r-table and the value is positive, the questions in the research questionnaire are considered legitimate; otherwise, the questions are considered invalid.

Tabel 1. Correlations

	Question Items Management Knowledge							
	X1.1	X1.2	X1.3	X1.4	X1.5	X1.6	X1.7	X1.8
Pearson Correlation	0,578**	0,603**	0,814**	0,800**	0,635**	0,837**	0,790**	0,817**
Sig. (2-tailed)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
N	74	74	74	74	74	74	74	74
	Question Items Ability to Prepare Financial Statements							
	Y.1	Y.2	Y.3	Y.4	Y.5	Y.6	Y.7	Y.8
Pearson Correlation	0,611**	0,810**	0,715**	0,685**	0,674**	0,834**	0,865**	0,812**
Sig. (2-tailed)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
N	74	74	74	74	74	74	74	74

Source : Output SPSS ver 26 (2023)

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The validity test findings in the correlations table show that all 75 questions about management knowledge and financial statement preparation abilities are regarded valid or useable since the computed r-value is larger than the tabulated r-value. The fact that the significant value (2-tailed) for the variables utilized is 0.000, which is less than 0.05, supports this. For an N of 75 and a significance level of 5%, the tabulated r-value is found to be 0.2270. The calculated r-values for each variable based on Pearson correlation, which were obtained as the average, are consistently larger than the tabulated r-value of 0.2270.

Reliability Test

The purpose of the reliability test is to assess whether the data collected in the research demonstrate adequate internal consistency. The Cronbach's alpha coefficient was utilized to make this judgment. A Cronbach's alpha score better than 0.60 is required for a questionnaire to be reliable (Ghozali, 2016).

Table 2. Reliability Statistics

Cronbach's Alpha	N of Items
0,927	17

Source: SPSS Output Version 26 (2023)

From the Reliability Statistics table, The Cronbach's alpha value for the variables of is clearly positive Management Knowledge (X) and Financial Statements Preparation Skills (Y) is 0.927, which is greater than 0.60. This signifies that the 17 questionnaire items related to the variables of management knowledge and Financial Statements preparation skills are reliable. Therefore, these variables can be further analyzed using regression analysis to determine the influence of management knowledge and Financial Statements preparation skills.

Heteroskedasticity Test

A good regression model should not exhibit heteroskedasticity, so it's necessary to perform a heteroskedasticity test. The purpose of the heteroskedasticity test is to determine whether there is unequal variance of residual values across different observations in the formed regression model. If the variance of residual values remains constant from one observation to another, it is referred to as homoskedasticity. However, if the variance of residual values varies across observations, it is called heteroskedasticity. The results of the heteroskedasticity test using the Glejser test are shown in Table 3:

Table 3. Heteroskedasticity Test Results

Model	Coefficients ^a				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4,294	1,600		2,685	0,009
Management Knowledge	-0,043	0,071	-0,071	-0,607	0,546

a. Dependent Variable: Abs_RES

According to the results in Table 3's Coefficients section, the significance value (Sig.) for the management knowledge variable (X1) is 0.546, which is more than 0.05. As a result, we may infer that the regression model has no indication of heteroskedasticity.

Multicollinearity Test

The goal of a multicollinearity test in research is to see if there is a correlation (strong association) between the independent variables in a regression model. To detect the presence of multicollinearity in a regression model, examine the correlation values between the independent variables first, then the condition index and eigenvalue, and finally the tolerance and variance inflating factor (VIF). Table 4 shows the results of the multicollinearity test:

Table 4. Multicollinearity Test Results

Model	Coefficients ^a						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3,809	2,825		1,348	0,182		
Management Knowledge	0,976	0,125	0,676	7,781	0,000	1,000	1,000

a. Dependent Variable: Ability to Prepare Financial Statements

The Tolerance value for the managerial knowledge variable (X) is 1.000, which is more than 0.10, according to the "Coefficients" table generated in the "Collinearity Statistics" section. Furthermore, the VIF value for the managerial knowledge variable (X) is less than 10.00. We may infer that there is no indication of multicollinearity in the regression model based on the decision-making criteria in the multicollinearity test.

Normality Test

The normality test determines whether or not the data utilized in the study follows a normal distribution. The significant value (Sig.) serves as the foundation for understanding the Kolmogorov-Smirnov (K-S) normalcy test. If the significance value (Sig.) is larger than 0.05, the study data is normal. If, on the other hand, the significance value (Sig.) is less than 0.05, the study data is not regularly distributed. Table 5 shows the results of the normalcy test:

Table 5. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		74
Normal Parameters ^{a,b}	Mean	0,0000000
	Std. Deviation	4,08130138
Most Extreme Differences	Absolute	0,089
	Positive	0,089
	Negative	-0,070
Test Statistic		0,089
Asymp. Sig. (2-tailed)		0,200 ^{c,d}
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

The Asymptotic Significance (2-tailed) value in Table 5 is 0.200, which is larger than 0.05. Following the above-mentioned decision-making criteria for the Kolmogorov-Smirnov normality test, it is possible to infer that the data has a normal distribution.

Descriptive Statistics Test

This test is carried out to provide an overview or description of data seen from the average value (mean), standard deviation, maximum, minimum, sum and range. The data tested is based on indicators from the independent and dependent variables. The independent variable in this research is management knowledge, and the dependent variable is the preparation of financial reports. The assessment indicators for measuring Management Knowledge are seen from knowledge of financial reports in general, how to prepare them, types and contents of financial reports, having attended training or learned about preparing financial reports, benefits and functions of financial reports (As'adi & Chalimi, 2020; Baskara & Afkar, 2021). Assessment indicators in preparing financial reports are seen from the ability to collect transaction evidence, record transactions sourced from transaction evidence, calculate and group all financial transactions, compile and read financial reports (Suhairi, 2006; Sulistyowati, 2017; Suryani et al., 2020).

The two variable indicators in this research were compiled into questions in the questionnaire distributed to respondents. The results of the descriptive statistical test of the questionnaire distributed to MSMEs in the city of Banjarmasin are shown in table 6:

Table 6. Descriptive Statistics

	N	Minimum	Maximum	Mean
Understanding the concept of Financial Statements (X1)	74	2	4	3,01
Knowing how to prepare Financial Statements (X2)	74	2	4	2,93
Understanding the benefits of Financial Statements (X3)	74	2	4	3,09
Understanding the functions of Financial Statements (X4)	74	1	4	2,97
Participated in financial statement preparation training (X5)	74	1	4	2,42
Learned how to prepare Financial Statements in formal institutions (X6)	74	1	4	2,59
Understanding the types of Financial Statements (X7)	74	1	4	2,47
Understanding the content of Financial Statements (X8)	74	1	4	2,70
Management Knowledge (X)				2,8
Able to collect transaction evidence (Y.1)	74	1	4	2,88
Able to record all transactions from transaction evidence (Y.2)	74	1	4	2,92
Able to calculate all financial transactions (Y.3)	74	1	4	2,91
Able to categorize transactions into financial record books (Y.4)	74	1	4	2,58
Capable of condensing transaction classifications into Financial Statements (Y.5)	74	1	4	2,70
Able to prepare Financial Statements (Y.6)	74	1	4	2,93
Able to read the content of Financial Statements (Y.7)	74	1	4	2,81
Able to analyze the content of Financial Statements and make decisions based on the analysis (Y.8)	74	1	4	2,82
Able to make decisions based on the analysis of Financial Statements (Y.9)	74	1	4	2,92
Preparation of Financial Statements (Y)	74			2,8

Table 6 of the descriptive statistics test indicates that for the management knowledge variable (X), consisting of 8 question items, the average response score across the 8 items is 2.8. This suggests that MSMEs in the city of Banjarmasin have a reasonable level of management knowledge regarding financial statements. Similarly, for the Financial Statements preparation variable (Y), comprising 9 question items, the average response score across the 9 items is 2.8. This implies that MSMEs in the city of Banjarmasin are adequately capable of preparing financial statements.

Regression Analysis Test

The goal of regression analysis is to estimate the average value of the dependent variable based on the known values of the independent variables. This study employs two regression methods, multivariate linear regression and logistic regression.

Table 7. Multiple Linear Regression

Variabel	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Description
	B	Std. Error	Beta			
(Constant)	3,809	2,825		1,348	0,182	
Management Knowledge	0,976	0,125	0,676	7,781	0,000	Accepted
R Square			0,457			
Adjusted R Square			0,449			

Source : SPSS Output ver 26 (2023)

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Based on table 7, the regression equation that can be formulated is as follows:

$$Y = \alpha + \beta_1 X + e$$

$$Y = 3.809 + 0.976 X + e$$

Goodness of Fit Test

This test is necessary to determine whether the regression equation used to test the hypothesis fits the data well. To assess the fit of a regression equation, the values of F, t, and R² are considered:

t-Test

The t-test statistic essentially reflects how far an individual explanatory/independent variable's effect extends in explaining variance in the dependent variable (Ghozali, 2016). The t-test can be conducted by examining the significance probability (α) value for each variable. If the hypothesis for each independent variable is accepted when $\alpha < 0.05$, conversely, if $\alpha > 0.05$ for each independent variable, the hypothesis is rejected. The t-test findings shown in table 7 reveal a t-value of 7.781 for the management knowledge variable, with a significance value of 0.000. This number is less than the specified significance threshold ($= 0.05$), implying that managerial expertise has a positive impact on the Ability to Prepare Financial Statements for MSMEs in Kota Banjarmasin.

Coefficient of Determination (R²)

The coefficient of determination (R Square) value of 0.457 suggests that managerial expertise explains 45.7% of MSMEs' performance, while the remaining 54.3% is explained by other unexplored variables.

Hypothesis Testing Results

According to the hypothesis, management knowledge influences the Ability to Prepare MSMEs Financial Statements in the city of Banjarmasin. The Significance value (Sig) and the comparison of t count and t table demonstrate hypothesis testing. The study's findings indicate that the Significance (Sig) of the Knowledge Management variable (X) is 0.000 t table 1.996, implying that the first hypothesis is correct. This indicates that Management Knowledge (X) has an effect on the Ability to Prepare Financial Statements (Y).

Management Knowledge Influences the Preparation of Financial statements in MSMEs in Banjarmasin.

The results of hypothesis testing indicate that management knowledge significantly affects the preparation of financial statements in MSMEs in Kota Banjarmasin. This implies that a higher level of management knowledge corresponds to a greater impact on the preparation of financial statements for MSMEs in the city. Management knowledge in this case is the accounting knowledge possessed by MSMEs (Cahya et al., 2021). The management or owners of the MSMEs in Banjarmasin generally possess basic and straightforward understanding regarding the preparation of financial statements. This encompasses knowledge of how to compile financial statements, the types and content of financial statements, as well as the purposes and functions of financial statements. This general understanding stems from the fact that the management or owners of

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MSMEs have, on average, not undergone formal education or training in Financial Statements preparation. This is evident from the respondents' answers, which mainly hover around values of 2 and 3, indicating partial agreement and partial disagreement. The average value for the management knowledge variable is 2.8, suggesting that MSMEs in Banjarmasin possess a reasonable level of management knowledge.

The Theory of Behavioral Accounting explains that this form of accounting emphasizes managerial aspects in decision-making, including those concerning financial statements. Financial statements play a crucial role in determining the success or failure of business operations. Thus, understanding and applying accounting practices are critical motivations for business owners to learn about accounting.

In general, management knowledge directly influences Financial Statements preparation. This is evident from the respondents' average responses, with Financial Statements preparation generally scoring around 2.8 (with most answers falling in the 2 and 3 range). Financial Statements preparation entails the ability to gather transaction evidence, record transactions, calculate transactions, categorize transactions into financial records, summarize them, prepare financial statements, read and analyze financial statements, and make decisions based on this analysis. On average, respondents' answers to these questions indicate a moderate level of proficiency in Financial Statements preparation. The better the management knowledge possessed by MSME owners, the higher the quality of their financial statements. Management knowledge assists MSME owners in effectively managing their finances.

These research findings align with other studies that assert that a solid understanding of accounting among MSME operators supports the successful implementation of Financial Statements recording in business units (Risal & Kristiawati, 2020). The significant influence of management knowledge on the preparation of financial statements in MSMEs has also been supported by other studies (Muslim & Sufina, 2018; Satiya et al., 2020). Accurate Financial Statements preparation necessitates management or owner understanding of accounting practices (Putra A, 2018).

CONCLUSION

The purpose of this study was to investigate and assess the impact of management expertise on the compilation of financial statements in MSMEs in Banjarmasin City. The findings of hypothesis testing revealed that, in general, management expertise in financial statement preparation has a direct impact on financial statement preparation in MSMEs in Banjarmasin City, with a significant value (Sig) of 0.000. The influence of management knowledge is substantial, with a magnitude of 45.7%. This research's findings imply that a better understanding of management knowledge related to Financial Statements preparation significantly affects the quality of financial statements produced. Accurate Financial Statements preparation contributes to assessing operational performance in MSMEs. However, measuring the use of financial statements for performance assessment requires further research. The current study is limited as it focuses on a single variable, leaving the possibility of other variables influencing Financial Statements preparation. The research

was conducted on a small-scale business with a small sample size, limiting the generalizability of the findings to a broader business scale. Therefore, further research is needed to address these limitations.

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