

# FACTORS AFFECTING ON THE QUALITY OF FINANCIAL REPORTS IN SMALL AND MEDIUM SIZE ENTERPRISES

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## Abstract

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This study seeks to examine the influence of financial literacy, educational level, information technology, and the implementation of Financial Accounting Standards for small and medium-sized enterprises (FAS SMEs) on the quality of financial reports for restaurant small and medium business enterprises in the Banyumas region of Indonesia. A sample of 100 restaurants was selected from a population of approximately 300 small and medium-sized restaurants using a simple random sampling method with the Slovin's formula. Data was collected by distributing questionnaires. Out of a total of 300 questionnaires, 100 were received back. Subsequently, the data was subjected to multiple linear regression analysis. Based on the resource-based hypothesis, the findings indicate that the use of information technology and the adoption of FAS SMEs have a beneficial impact on the quality of their financial reports. However, financial literacy and educational level do not have any effect. This study, despite its limited sample size, contributes to the advancement of knowledge in the field of financial accounting for SMEs, specifically in emerging countries like Indonesia. It achieves this by offering empirical data on the factors that influence the quality of financial reports for SMEs.

**Keywords:** FAS SMEs, Financial Literacy, Education Level, Information Technology, Quality of Financial Report

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## 1. INTRODUCTION

Since the COVID-19 pandemic of 2020, from which the economy has not yet fully recovered, the number of small and medium-sized enterprises (SMEs) has increased, despite the fact that many SMEs had closed prior to the outbreak. This occurs because many employees of large companies are laid off, requiring them to support their families by establishing a business, either by beginning with

a small-scale business or by investing directly in a large-scale business.

SMEs play a significant role in Indonesia's economic development (Suyono et al., 2016; Suyono et al., 2019; Sularsih & Wibisono, 2021). This is evident in terms of business units, employment, export volume, and capital investment. SMEs were founded based on the innovative business concepts of local communities.

Currently, SMEs in the culinary industry are proliferating. Numerous individuals are interested in

establishing a culinary business because it is considered lucrative, particularly in Banyumas, which is home to numerous pupils attending public and private universities where they stay far away from their families.

The success of SMEs is measured not only by their contribution to the country's economy but also by how efficiently and consistently they are managed. Many people believe that business success is measured by the amount of profit generated by business activities over a given period. It is also evident in his ability to allocate his daily capital to business activities. In addition to these two factors, the capacity to attract investors or apply for bank credit is also a factor in business success, according to Susanto and Yuliani (2015).

According to the preceding description, both small and large business activities necessitate reports on the outcomes of business activities. This report can be used by managers or business proprietors to evaluate their company and make decisions. Business activity reports can be interpreted as periodic financial reports of a business unit. The purpose of financial reports is to provide users with useful information regarding their financial position, financial performance, profit/loss, and variations in their financial position.

The quality of financial reports can be determined by the veracity and integrity of their contents (Setyowati et al., 2016; Elmassri et al., 2022). Stakeholders use high-quality financial reports as a benchmark for making economic decisions (El-Bannany, 2018). The amount of information provided to users and the process of compiling financial reports in accordance with existing rules, principles, and standards can be used to determine the quality of financial reports from a company or business unit.

There are still numerous SMEs that have not produced quality financial reports or do not have financial reports. Due to the fact that the importance of financial reports is still poorly understood, many SMEs consider the preparation of financial reports to be a waste of time and money. Moreover, many SMEs do not implement the Indonesian financial reporting standards and instead record simple transactions according to their knowledge.

The financial report for SMEs is vital to the survival and growth of a business unit. For instance, in terms of access to capital, one of the requirements to apply for credit from banks is to have a financial report, which banks use as a reference when evaluating an entity, particularly its ability to pay its obligations. Obviously, for the financial report to be more convincing to the bank, it must be of high quality. Similar to investors' access to capital, a financial report is useful for evaluating financial management, profits generated, assets possessed, and other factors that investors should consider when investing capital.

The output of high-quality financial reports will be beneficial financial information for decision-making. The integrity of a financial report can be determined by its qualitative characteristics. According to Sholohah et al. (2019) and Verma and Shahwan (2021), the qualitative characteristics of financial reports are comprehensible, pertinent, trustworthy, and comparable. The qualitative financial characteristics included in financial reports

are requirements that must be met when creating financial reports. In the absence of any one of these characteristics, the prepared financial statements cannot be relied upon as accurate. Consequently, all characteristics must comply with the applicable regulations. These qualitative characteristics are included in the exposure draft of Financial Accounting Standards for small and medium-sized enterprises (FAS SMEs), which explains that this is a requirement for presenting financial statements fairly.

Previous studies have examined many aspects that impact the quality of financial reporting in SMEs, including financial literacy, education level, human resource competency, information technology, and the implementation of FAS SMEs. SMEs players greatly benefit from possessing financial literacy. SMEs participants with a high level of literacy will possess the ability to exert influence over their financial situation and comprehend the methods for effectively handling income and expenditures, thus ensuring the ongoing operation of their business. Additionally, they will be capable of generating accurate and dependable financial reports (Ardila et al., 2020). Nevertheless, every SME participant holds various perspectives concerning the utilization and objective of financial reports. Some individuals believe that financial reports are unnecessary for their firm due to their medium scale, young age, small number of employees, and relatively low business turnover. Additionally, there are people who lack knowledge about financial reports altogether (Cahyani et al., 2020).

Prior studies have demonstrated a positive and substantial correlation between financial literacy and the quality of financial reports. Consequently, it can be inferred that when financial literacy meets the desired standards, it will positively contribute to the expansion of SMEs and enhance the quality of their financial reports (Sularsih & Wibisono, 2021). According to a study conducted by Abdallah and Maryanto (2020), it has been determined that there is a notable correlation between perceptions of the purpose of financial reports and the quality of financial reports. This implies that if owners have negative perceptions of financial reports, it will lead to a decrease in the quality of those reports.

The quality of financial reports is influenced by the competency of human resources or their degree of education. When competent human resources are present, they are able to provide financial reports that are timely, relevant, and comparable (Animah, et al., 2020). The measurement of human resource competency in this study was based on the level of education. Prior studies on the impact of human resource competency on the quality of financial reporting have yielded inconsistent findings. Oktavia and Rahayu (2019) conducted research indicating that the competency of human resources has a significant impact on the quality of financial reports. Similarly, a study conducted by Dewi et al. (2019) demonstrates that the competency of human resources has an impact on the quality of financial reports. Contrarily, a study conducted by Hapsari and Pratomo (2021) demonstrates that the competence of human resources does not impact the quality of financial reports. In contrast, Animah et al. (2020) conducted studies indicating that

human resource competency does not impact the quality of financial reports.

The utilization of information technology also has an impact on the quality of financial reporting. A study conducted by Safitri et al. (2019) demonstrates that the utilization of information technology has an impact on the calibre of financial reports. Nevertheless, Ningrum (2018) demonstrates in his study that the outcomes of information technology do not impact the calibre of financial reports. Researchers are interested in re-examining human resource competencies, the application of Financial Accounting Standards, and information technology due to the disparity in research findings.

The adoption of Financial Accounting Standards is another determinant of the quality of financial reports (Ikatan Akuntan Indonesia [IAI], 2016). Ayem and Maknun (2020) found that the adoption of Financial Accounting Standards has an impact on the accuracy and reliability of financial reporting for SMEs in Yogyakarta city. However, studies conducted by Isviandari et al. (2019) and Irafah et al. (2020) indicate that the implementation of Financial Accounting Standards does not impact the quality of financial reports.

Prior research exhibits discrepancies stemming from variations in their findings. This research aims to reassess the impact of financial literacy, degree of education, information technology, and the adoption of FAS SMEs on the accuracy and reliability of financial reporting.

Based on the background of the problem that has been described, the research questions can be formulated as follows:

*RQ1: Does financial literacy have a positive effect on the quality of financial reports?*

*RQ2: Does the level of education have a positive effect on the quality of financial reports?*

*RQ3: Does information technology have a positive effect on the quality of financial reports?*

*RQ4: Does the implementation of FAS SMEs have a positive effect on the quality of financial reports?*

The structure of this paper is as follows. Section 2 is dedicated to conducting a comprehensive study of the existing literature and previous research pertaining to the theory and relevant topics. Section 3 analyses the data and study methodology can be found in. Section 4 provides a detailed explanation of the findings. Section 5 offers a discussion. Section 6 concludes the paper.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The resource-based theory (RBT) was presented for the first time by Wernerfelt (1984). This paper describes how companies can increase their competitive advantage by developing the resources they already possess to ensure their long-term survival. A company's competitive advantage is something that is difficult for other companies to imitate. To achieve this competitive advantage, a business must effectively utilize and manage its resources. Resources are everything that a company possesses and controls, including assets, individual employee capabilities, technological knowledge, organizational processes, and information that is useful for implementing company strategies in order to create and improve company efficiency and

effectiveness. Understanding the relationship between resources, capabilities, competitive advantage, and profitability is one of the benefits of RBT, particularly being able to comprehend the mechanisms for maintaining competitive advantage over time.

This theory also discusses how companies are able to utilize and manage existing resources. These resources are in the form of tangible assets or intangible assets. Wernerfelt (1984) explains the resource-based view which states that a company will increasingly excel in business competition and achieve good financial performance by owning, controlling, and using strategic assets that play an important role. A potential strategy to improve company performance is to combine tangible assets and intangible assets (Belkaoui, 2003).

### 2.1. The influence of financial literacy on the quality of financial reporting

According to RBT, a company will have a competitive advantage if it has professional resources that other companies do not have; one of the skills that employees and entrepreneurs must possess is financial literacy. With a high level of financial literacy, businesses will be able to access financial resources as resources that can be optimally managed to enhance business unit performance. In addition, the preparer must have a comprehension of financial knowledge and its various concepts in order to produce quality financial reports. Consequently, financial literacy can impact the caliber of a financial report.

Susanti et al. (2018) found that financial literacy has a positive and significant effect on the financial behaviour of SMEs in Surakarta, with income, expenditure, credit literacy, savings literacy, and investment literacy as the influencing dimensions. Djou (2019) also conducted research on SMEs in the Ende Regency demonstrating the positive relationship between financial literacy and financial management behaviour. A similar finding is reached by Sularsih and Wibisono (2021) and Abdallah and Maryanto (2020) who found a positive relationship between financial literacy and the duality of financial reports.

Based on the preceding explanation, the following hypothesis can be formulated:

*H1: Financial literacy influences positively the integrity of financial reporting.*

### 2.2. The effect of educational degree on the quality of financial reporting

Wernerfelt's (1984) RBT explains that companies or business units must control human capital optimally to generate added value for the company. Included in human capital are competencies, originality, personality, experience, moral character, and education. In relation to this research, the human capital discussion emphasizes education. Education can influence a person's knowledge, one of which is the ability to create high-quality financial reports due to their understanding of effective financial report writing.

According to research conducted by Murina and Rahmawaty (2017), the level of education affects the comprehension of village financial reports in

Banda Raya district, Banda Aceh city. This means that the higher the level of education, the greater the comprehension of village financial reports. This research is supported by the claim made by Devi et al. (2017) in their study that education level has a positive and significant influence on the quality of SMEs financial reports in Buleleng district. Similarly, it is supported by Oktavia and Rahayu (2019) and Dewi et al. (2019) who found a positive relationship between human resources competence and the quality of financial reports.

This level of education is related to human resources competence; the higher the level of education, the greater a person's financial literacy and the impact it has on the compilation of quality and reliable financial reports, as the level of education also determines a person's sense of duty. Based on the aforementioned description, the following research hypothesis can be formulated:

*H2: Education level influences the integrity of financial reporting positively.*

### 2.3. The influence of information technology on the quality of financial reporting

According to RBT, there are three sources of company capital, namely sources of physical capital (technology used), sources of human capital, and sources of organizational capital. These resources can improve company performance and competitive advantage, one of which is technology used to facilitate company performance in all fields, for example making financial reports quickly and accurately. Financial reports are a tool for communicating with external parties, along with the development of information technology, it will increase the ability of business units to provide information and users to use information.

According to Risal and Wulandary (2021), many SMEs are currently utilizing sophisticated information technology and adapting it to the nature and requirements of each business, and the use of information technology creates opportunities for a business to increase its competitive advantage and make operational tasks easier. The use of information technology has a positive and significant impact on the integrity of the financial reports of SMEs. It is also supported by research conducted by Safitri et al. (2019) who found a positive relationship between the use of information technology and the quality of financial reports. From the preceding explanation, the following hypothesis can be derived:

*H3: Information technology has a positive influence on the quality of financial reporting.*

### 2.4. The effect of implementation of FAS SMES on the quality of financial reporting

In accordance with the RBT, businesses must possess unique resources in order to increase their competitive advantage and provide added value. These resources must be difficult to imitate, uncommon, and irreplaceable. Organizational resources, namely the implementation of standards established particularly for SMEs, i.e., FAS SMEs, are one of the available resources. The implementation

of FAS SMEs in a business unit is an intangible asset that is a characteristic of the business unit's resources in order to increase competitive advantage and contribute value to the business unit. According to these standards, SMEs are required to produce at least a financial position report, a profit and loss report, and notes to financial reports.

Financial report preparation standards can be a factor in producing quality financial reports. With the existence of a standard, preparers of financial reports will not experience confusion and difficulties in reporting because there are already patent standards or references in all matters regarding financial reporting. This is in line with research by Ayem and Maknun (2020) that understanding FAS SMEs has a positive and significant effect on the quality of SMEs' financial reports in Yogyakarta city. Apart from that, Widiastoeti and Sari's (2020) research shows that the existence of FAS SMEs helps make it easier for SMEs to prepare financial reports based on FAS SMEs for the SMEs in Kampung Kue Rungkut in Surabaya, so that these SMEs are able to create financial reports based on FAS SMEs, namely financial position reports, profit reports, losses and notes to financial statements. Based on this explanation, the research hypothesis is formulated as follows:

*H4: Implementation of FAS SMEs has a positive effect on the quality of financial reporting.*

## 3. RESEARCH METHODOLOGY

This study follows a quantitative approach to examine and evaluate the link between many variables (Sekaran & Bougie, 2016). The population consists of restaurants in the Banyumas region of Indonesia that have prepared financial reports, with data collection conducted through the distribution of questionnaires.

### 3.1. Variables measurement

The dependent variable in this research is the quality of financial reports (*QUA*). The quality of financial reports can be assessed based on the correctness and reliability of the information contained within them. The indicators used to measure the quality of financial reports in this research are seen from the research of Sholohah et al. (2019) with the following indicators:

1) *Relevance*. Financial reports are used as a reference in decision-making based on past reports and can predict future conditions.

2) *Reliability*. Financial reports must be honest and verifiable.

3) *Comparability*. Financial reports should be comparable to previous reports to aid in future decision-making.

4) *Understandability*. Financial reports should be comprehensible to users.

The independent variables used in this research are as follows:

1) *Financial literacy (FIN)*. Financial literacy is the most effective tool in encouraging financial growth for households and businesses according to Susanti et al. (2018). This financial literacy can also improve financial management skills, which can

increase income. The indicators used in this research were modified from research by Humaira and Sagoro (2018), namely as follows:

- a) knowledge of financial planning and management for SMEs;
- b) knowledge of recording financial income and expenditure for SMEs;
- c) knowledge about investment;
- d) knowledge of credit.

2) *Degree of education (EDU)*. Education encompasses everything related to human development such as physical development, thoughts, feelings, social skills, and faith (Devi et al., 2017). According to Auliah and Kaukab (2019), to understand accounting, SMEs must at least have human resources with a high school education level, and it would be better if they had an accounting education background. In this research, to measure variables, indicators adopted from Kusuma and Lutfiany's (2019) research are used, namely the last level of education.

3) *Information technology (IT)*. Information technology is proof of today's developments. The use of information technology will provide convenience, speed, and practicality in preparing financial reports (Mutiana et al., 2017). The indicators used in this variable were modified from research by Mutiana et al. (2017), namely as follows:

- a) SMEs use information technology to simplify the preparation of financial reports;
- b) utilizing information technology in the process of preparing financial reports.

4) *Implementation of FAS SMEs (SMEs)*. FAS SMEs is one of the Financial Accounting Standards prepared to assist SMEs in preparing financial reports in accordance with applicable rules. According to Janrosl (2018), the existence of FAS SMEs can help SMEs players gain an understanding of preparing and presenting financial reports, which is one of the requirements for bank credit in the financial industry. The indicators used in this variable were modified from research by Janrosl (2018), namely as follows:

- a) SMEs are aware of the existence of accounting standards that are useful for making it easier to present financial reports.
- b) SMEs can understand the preparation of financial reports according to accounting aspects.
- c) SMEs have started to implement FAS SMEs in preparing financial reports.

### 3.2. Data analysis

Data analysis begins with validity and reliability tests, followed by descriptive statistical analysis. Subsequently, classical assumption tests are conducted, consisting of normality, multicollinearity, heteroscedasticity, and linearity tests. Finally, hypothesis testing is performed through multiple linear regression testing using the following equation:

$$QUA = \alpha + \beta_1 FIN + \beta_2 EDU + \beta_3 IT + \beta_4 SMEs + \varepsilon \quad (1)$$

where,

- *QUA* = the quality of financial reporting;
- $\alpha$  = constant;
- $\beta$  = regression coefficient;

- *FIN* = financial literacy;
- *EDU* = degree of education;
- *IT* = information technology;
- *SMEs* = implementation of FAS SMEs;
- $\varepsilon$  = error.

### 4. FINDINGS

The validity test was conducted using Pearson correlation. The results of validity testing for each question item across all variables show that r-statistics exceed the r-table, suggesting the validity of the tested variable. Moreover, the reliability test by using Cronbach's alpha ( $\alpha$ ) shows that all variables have Cronbach's alpha values exceeding 0.6, indicating reliability across all instruments for each variable. Meanwhile, the result of descriptive statistics is presented as follows:

Table 1. Descriptive statistics

Variable	FIN	EDU	IT	SMEs	QUA
Mean	4.19	0.07	4.32	3.15	3.10
Median	4.17	0.00	4.33	3.00	3.00
Std. deviation	2.91	0.26	4.52	5.60	4.49
Minimum	3.50	0.00	2.50	2.17	2.25
Maximum	4.92	1.00	5.00	4.67	4.50

Based on Table 1, the results of descriptive statistical analysis of variables, which are the output of the SPSS version 25 descriptive analysis test, show that financial literacy (*FIN*) ranges from a lowest value of 3.50 to a highest value of 4.92, with an average value of 4.19. This indicates that respondents generally agree with financial literacy. Education level (*EDU*) ranges from a lowest value of 0.00 to a highest value of 1.00, with an average of 0.07, indicating that the respondent is more likely to have non-accounting educational backgrounds rather than accounting. The information technology variable (*IT*) ranges from a lowest value of 2.50 to a highest value of 5.00, with an average of 4.33, indicating agreement among respondents with statements related to information technology. Variables for implementing FAS SMEs (*SMEs*) range from a lowest value of 2.17 to a highest value of 4.67, with an average of 3.15, suggesting that respondents have a neutral perception of the implementation of FAS SMEs. The financial report quality variable (*QUA*) ranges from a lowest value of 2.25 to a highest value of 4.50, with an average of 3.10, indicating a neutral perception of the quality of financial reports.

Moreover, related to the classical assumption test of regression, the results show that the normality test using the Kolmogorov-Smirnov test has asymptotic significance > 0.05 for all variables, indicating normal data distribution. Then, the multicollinearity test shows that each variable has a value of variance inflation factor (VIF) < 10 and a tolerance > 0.10.

This means that there is no multicollinearity problem in this model. Then, the heteroscedasticity by Glejser test shows that the value for each variable is more than 0.05. It means that this model is free from the heteroscedasticity problem.

**Table 2.** The output of multiple linear regression

Variable	Coefficient regression	t-statistics	Sig.
FIN	0.020	0.203	0.840
EDU	4.819	0.497	0.621
IT	0.166	2.533	0.013
SMEs	0.625	12.006	0.000
Constant	32.727	0.854	0.396
R		0.873	
R-Square		0.762	
Adjusted R-Square		0.749	
F-statistics		58.473	
F-sig.		0.000	

Based on the results of the multiple linear regression analysis test, the following regression equation is obtained:

$$QUA = 32,727 + 0,020FIN + 4,819EDU + 0,166IT + 0,625SMEs + \varepsilon \quad (2)$$

## 5. DISCUSSION

### 5.1. The influence of financial literacy on the quality of financial reports of SMEs restaurants

In this study, the results of the partial test of financial literacy (*FIN*) on the quality of financial reports (*QUA*) show that the proposed hypothesis *H1* was rejected. This means that there is no influence of financial literacy on the quality of the financial reports of SMEs restaurants in Banyumas.

Financial literacy means the dominance of a person's knowledge about financial concepts. Financial literacy can help business actors in terms of financial management such as planning, budgeting, investment, and basic financial management concepts.

This study fails to confirm RBT, where competitive advantage is created if a business can optimize intangible assets, one of which is human resources. Based on the results of research on SMEs restaurants in Banyumas, SMEs actors still have low financial literacy because, from the research data obtained, not all SMEs actors have education with an accounting or financial background that studies financial literacy, apart from that, it is in accordance with several observations during research. SMEs players do not yet understand financial literacy. This occurs due to a lack of socialization about finance in the SMEs environment, especially restaurant SMEs in Banyumas, but this does not become an obstacle for SMEs in competing with other businesses and does not affect the quality of financial reports. There are still factors that can influence the quality of financial reports, such as perceptions of the purpose of financial reports and understanding of accounting (Abdallah & Maryanto, 2020).

The results of this study are not in line with research by Susanti et al. (2018) and Sularsih and Wibisono (2021), which show the results that financial literacy has a significant effect on the financial behaviour of SMEs in Surakarta. The influential dimensions of this research are income, expenditure (spending literacy), literacy about credit (credit literacy), literacy about savings (saving literacy), and literacy about investment (investment literacy). The research results are also not in line with research by Rumbianingrum and

Wijayangka (2018), which states that financial literacy has a positive influence on financial management in SMEs members assisted by KSU Misykat DPU DT in Bandung, even though the financial literacy category is still quite low.

These studies have the same object, namely SMEs, but are not specific to the SMEs sector studied. Meanwhile, in this research, the object used is more specific, namely SMEs, and restaurants. The majority of respondents in this study also suspect that this hypothesis is not confirmed. This can be inferred from the results of descriptive statistical tests, which indicate that most respondents lack a background in accounting knowledge, resulting in insufficient financial literacy.

### 5.2. The influence of education degree on the quality of financial reports of SMEs restaurants

Testing the *H2* in this study was rejected. In this case, many respondents have a non-accounting educational background. The level of education can increase a person's understanding of something being studied and can increase and show a person's responsibility for their duties. Education is a learning process structured to increase knowledge. In this research, it is stated that the level of education does not have a significant effect on the quality of financial reports, because the majority of SMEs restaurant owners/managers in Banyumas do not have an educational background related to accounting.

The findings of this research again fail to confirm the RBT, which states that a business can produce added value if it can maximize the intellectual capital it has, namely structural capital, capital employed, and human capital (employees). Human capital is human resources, which in this case are related to education. Human resources in a business are important, especially human resources who are responsible, competent and have expertise in the field of their duties. Human resources are the main factor in running a business, so human resources who have high integrity are needed in the company. Based on the results of research conducted on SMEs restaurants in Banyumas, the education level of SMEs actors has no effect on the quality of financial reports.

The results of this research are in line with research by Auliah and Kaukab (2019), which states that the level of education has no effect on SMEs' financial reporting based on FAS SMEs for SMEs in Wonosobo. This means that in Wonosobo SMEs, the level of education has no effect on the financial reports produced. It is also in line with Animah et al. (2020) and Hapsari and Pratomo (2021), who demonstrate that the competence of human resources does not impact the quality of financial reports.

On another side, this finding is not in line with Oktavia and Rahayu (2019) and Dewi et al. (2019), who demonstrate that the competency of human resources has an impact on the quality of financial reports. Furthermore, research by Cahyani et al. (2020) shows the results that the level of education has a negative effect on the quality of financial reports.

### 5.3. The influence of information technology on the quality of financial reports for SMEs restaurants

The research results confirm the influence of information technology on the quality of financial reports, so *H3* of this study is accepted. The use of information technology is very helpful in preparing financial reports. This is in line with the research results which are answers from respondents.

The use of information technology can provide many benefits, namely time efficiency in the process of creating financial reports and the resulting financial reports being more accurate, which shows the quality of the report itself. This information technology is an alternative method used in the process of preparing financial reports.

In this study, open questions were provided that respondents could answer freely. Researchers asked whether information technology could make it easier for managed SMEs to prepare financial reports. According to Ramdan Usluhudin, owner of Piknik Café: *"We use existing technology to record transactions, but we still use existing technology to make financial reports manually"* (personal communication, April 12, 2023).

According to Ramdan, the restaurant SMEs he owns have recorded all transactions using technological advances, but the financial reports are still made manually. Another respondent also answered the open question contained in the information technology questionnaire put forward by Pangestu, the owner of a restaurant in Banyumas, stating: *"Currently we have not used an application to make financial reports, we still do it manually and according to our needs"* (personal communication, April 13, 2023). According to Pangestu, the SME restaurant business he owns still records manually and simply.

It can be concluded that restaurant SMEs in Banyumas have recorded and made financial reports, but still using manual and simple methods and not fully using technological advances. A financial report produced by software is not necessarily a quality result, there are other factors that cause this, one of which is competent human resources because these human resources most likely have an understanding of financial reports. Quality human resources supported by the use of technological advances (use of hardware and software) are a positive combination to produce quality financial reports.

This research is in line with the concept of RBT put forward by Wernerfelt (1984), which states that to achieve competitive advantage, a company must utilize and manage its resources well, one of which is technological knowledge. Technology today is very useful for human life because it can make all work easier in various fields, including the financial sector. The advantages of technology in the financial sector can speed up the process of recording many transactions and make it easier to make financial reports. Apart from that, advances in technology can minimize the large number of data input errors. However, from the results of research on restaurant SMEs in Banyumas, there are still many SMEs that do not use information technology in carrying out business operational activities, especially in terms of making financial reports; they still use manual

methods. Human resources or restaurant SMEs in Banyumas do not fully understand the use of existing finances applications and lack encouragement to explore advances in information technology. This is because the majority of SMEs restaurant businesses in Banyumas are still small-scale and the transactions carried out are not too many or complicated, so they still use simple recording and bookkeeping of financial reports. Another factor is a lack of knowledge about applications for transaction needs and for making financial reports.

This research is in line with research by Sukriani et al. (2018), which shows the results that information technology has a positive effect on the quality of Bumdes' financial reports in Negara district. This means that using information technology in making financial reports can produce quality financial reports and make it easier to make financial decisions for SMEs. Similarly, Safitri et al. (2019) found that the utilization of information technology has a positive influence on the quality of financial reports. Nevertheless, Ningrum (2018) did not find such a relation.

### 5.4. The influence of implementing FAS SMEs on the quality of financial reports for SMEs restaurants

The research results show that there is an acceptable effect of implementing FAS SMEs on the quality of financial reports in this research. This means that *H4* is accepted and there is an impact of implementing FAS SMEs on the quality of the financial reports of SMEs restaurants in Banyumas.

FAS SMEs was created by the IAI Council to simplify the financial recording and reporting of small-scale SMEs because SMEs are business units that are not very large but still require standards for financial recording. FAS SMEs represent a relatively simple standard resulting from the simplification of FAS SMEs, which is claimed to be less effective when applied to SMEs because it is too complicated. FAS SMEs can be said to be simple because they encompass all transactions that SMEs usually carry out.

It can be concluded that FAS SMEs play an important role for SMEs players in Banyumas in preparing financial reports that are useful as a basis for decision-making for business units. This research aligns with RBT, which posits that one of the company's resources derived from intangible assets is intellectual capital. This intellectual capital can produce added value for the company. To achieve a competitive advantage, a business must be able to maximize intellectual capital. In this case, the application of FAS SMEs in a business constitutes part of intellectual capital because it encompasses the resources or knowledge possessed by SMEs actors. Based on research conducted on restaurant SMEs in Banyumas, many SMEs have implemented special financial standards for SMEs. The implementation of FAS SMEs in SMEs restaurants in Banyumas has an effect on the resulting financial reports. FAS SMEs can add positive value to SMEs because the financial reports produced are of high quality, enabling SMEs to make more effective financial decisions. This aligns with one of the company's criteria for achieving

a competitive advantage, as discussed by Barney and Clark (2007).

The results of this research are consistent with the research by Ayem and Maknun (2020), indicating that understanding FAS SMEs has a positive and significant impact on the quality of SMEs financial reports in Yogyakarta city. This suggests that the implementation of FAS SMEs in a business unit influences the quality of its financial reports, determining whether they are deemed satisfactory or not.

## 6. CONCLUSION

Financial literacy and the level of education do not affect the quality of the financial reports of restaurant SMEs in Banyumas.

However, IT and the implementation of FAS SMEs positively influence the quality of financial reports for SMEs restaurants in Banyumas.

Based on the results of the analysis and conclusions, it is evident that financial literacy has no impact on the quality of the financial reports of SMEs restaurants in Banyumas. This is because restaurant SMEs in Banyumas acquire knowledge about finance and business management not from book literature or similar sources, but through sharing experiences about business managing, capital allocation, including financial reports, with other restaurant SMEs organized in a group or organization. For SMEs players, it is advisable to enhance financial literacy from various sources to acquire the latest knowledge about business finance.

According to the research results, the level of education has no effect on the quality of the financial reports of restaurant SMEs in Banyumas. However, in this increasingly advanced era, education is very

important for enhancing understanding, especially in accounting or finance, which significantly impacts knowledge about personal finance and skills in utilizing financial resources. This is particularly beneficial for entrepreneurs or business owners in preparing budget to avoid losses. Even for SMEs players without an educational background in accounting, it is essential to enhance their knowledge of finance and financial reports for business continuity.

The research findings conclude that information technology positively affects the quality of financial reports for SMEs restaurants in Banyumas. Currently, SMEs still rely on simple methods for financial recording, leading to frequent recording errors and untidy reports due to manual processes. In today's era, SMEs players should leverage technological advances in all company operational activities, particularly in recording transactions and producing financial reports.

The implementation of FAS SMEs affects the quality of financial reports for restaurant SMEs in Banyumas. This enhances decision-making effectiveness as the resulting financial reports adhere to the standards set by FAS SMEs and cater to specific needs.

A drawback of this research is the limited awareness among SMEs players on the presentation of financial reports in accordance with FAS SMEs. As a result, the researchers had challenges in gathering a sufficient number of respondents.

Further research is expected to test other variables such as business longevity, size, tax planning, business characteristics, and quality of financial managers. The broader exploration aims to yield comprehensive insights into variables thought to have a significant influence.

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