Financial Reporting Model Influenced by Education Level and Business Scale with Accounting Perception as the Intervening Variable

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Abstract. The study profiles Jambi Province's MSMEs, explores how education and business scale affect financial reporting via accounting perception, and identifies key factors influencing MSME financial report preparation. This research uses a survey approach with a questionnaire as a data collection tool. Data were analyzed using a qualitative approach and Structural Equation Modeling (SEM) with the help of AMOS software. The study finds education and business scale affect accounting perception and financial report preparation in Jambi's MSMEs. Accounting perception also influences financial report preparation in the province. This research is limited to MSMEs in Jambi Province, so the results may not be directly applicable to other contexts. This research provides insight into the factors that influence the preparation of MSME financial reports in Jambi Province, which can be a basis for stakeholders in improving accounting practices and financial reporting in the MSME sector.

Keywords: Education Level, Business Scale, Accounting Perception, Financial Reporting

1 Introduction

Small and Medium-sized Enterprises (SMEs) play a significant role in Indonesia's economy by contributing to income distribution among the population and mitigating unemployment issues. SMEs predominantly utilize local resources, making them more resilient during economic crises. Additionally, they are less susceptible to financial crises or credit problems, as they rely on their own funds rather than bank loans.

Both the central and local governments have shown substantial interest in developing SMEs as a means to stimulate economic growth. This is due to the fact that SME operators in regions are mostly from the lower-income segments of society, forming the economic foundation and warranting serious attention from the government for their development. In adopting more accurate and equitable development strategies to build a robust economic structure, lessons from economic crises must be learned. Strong SMEs are especially crucial in poor and developing countries because they have a dual impact: (a) they are significant job creators and (b) they expedite income distribution and minimize income disparities among different population groups. However, they still face challenges such as market access and intervention, capital, technology, and weak management.

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Education refers to the efforts made by individuals or groups to mature mentally or attain a higher quality of life (Syafril, M. P., & Zen, Z., 2019; Ivlev, V. I., Silayev, P. B., & Syrtsova, S. V., 2014).

Business scale pertains to a company's ability to manage its operations based on the number of employees hired and the revenue earned within a specific period (Smirat, B. Y. A., 2013: Bozkurt, O., Islamoglu, M., & Oz, Y., 2013; Costuleanu, C. L., et al., 2016). According to the Indonesian Accountants Association (IAI) in PSAK (2012), financial reports for general purposes are intended to meet the common needs of most financial statement users for general purposes. This includes financial reports presented separately or in other public documents, such as annual reports or prospectuses.

SMEs in the Province of Jambi have been developing rapidly in terms of both quantity and quality. However, a prevailing issue is the lack of financial reporting in SMEs, leading to various problems, including difficulties in monitoring business progress, inadequate business planning, and inefficient use of funds. Preliminary interviews with SME stakeholders revealed that the reasons behind not preparing financial reports include perceptions about accounting, education levels, and business scale.

This research is significant as it will provide insights into how variables such as education level, business scale, and accounting perception influence the preparation of financial reports. Ultimately, the research will offer recommendations to various stakeholders on what can be done to encourage SMEs to prepare financial reports for their businesses.

2 Methodology

2.1 Research Design

This study is a survey research, where the sample is drawn from the population. The data comprises both primary and secondary data. Data collection is conducted through questionnaires. This research falls under quantitative research, involving hypothesis testing using statistical tools. There are four variables in this study: education level (X1), business scale (X2), perception of accounting (Y1), and financial report preparation (Y2).

The population consists of SME stakeholders in the Province of Jambi. Based on data obtained from the Department of Industry, Trade, and Cooperatives of the Province of Jambi, the population is 19,726 SMEs. The sample represents characteristics of the population for research purposes (Sugiyono, 2011). According to Sevilla, C. (2014), the sample size from the population is determined using the Slovin formula, resulting in a sample size of 400 individuals.

2.2 Data Processing Method

Instrument testing for the research includes validity testing, reliability testing, and normality testing. Data analysis and hypothesis testing consist of two parts: the first part involves qualitative data analysis based on field data, and the second part employs a quantitative approach using Structural Equation Modeling (SEM) statistics.

3 Results and Discussion

The characteristics of SME stakeholders in the Province of Jambi, based on gender, show that the majority are females, accounting for 242 individuals or 61%. Meanwhile, males make up 158 individuals or 39%. In terms of age, the majority of SME stakeholders in the Province of Jambi fall between the ages of 36-45, totaling 195 individuals or 49%. Regarding education, most respondents or SME stakeholders in the Province of Jambi have completed high school or its equivalent, with 289 individuals or 72%. Concerning the type of business, culinary businesses are the most common, with 258 individuals or 65%.

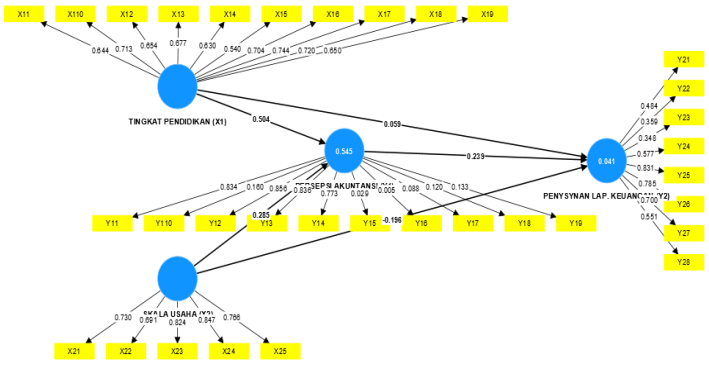
3.1 Testing Analysis Requirements

Validity testing indicates that the results of the validity testing for all research variables, as evidenced by the Pearson correlation, exceed the critical r value of 0.3. Thus, the items for each construct in the questionnaire can be considered valid and acceptable.

Reliability testing, performed using Spearman-Brown correlation with SPSS, yields results indicating that all statement items are reliable, as the Cronbach's Alpha values exceed 0.6. Therefore, it can be concluded that all statement items in the core research are considered reliable.

The results of normality testing show that the skewness ratio is -0.682 (calculated as -0.311 / 0.456), and the kurtosis ratio is -0.021 (calculated as -0.015 / 0.722). Since both skewness and kurtosis ratios fall between -2 and +2, it can be inferred that the data distribution is normal.

Hypothesis Testing and Data Analysis To conduct a comprehensive hypothesis test, it is necessary to first depict the full Structural Equation Model. The model can be seen in Figure 1 below.



Uji Hipotesis :
Chi-square=603,810
Probability=0,000
CMIN/DF=1,446
GFI=0,832
AGFI=0,911
TLI=0,967
CFI=0,905
RMSEA=0,068

Fig. 1. Structural Equation Model

In general, all goodness-of-fit indices are in accordance with the presented data and model. The evaluation of the proposed model reveals positive outcomes across all criteria used. This implies that the model aligns with the data. This is evident in the model results, as the Goodness of Fit Index meets the required standards, indicating that this model can be analyzed.

3.2 Hypothesis Testing Results

From the calculations, it is evident that the Critical Ratio (C.R.)—which is identical to the t-test in regression—indicates that all regression coefficients are significantly different from zero. Therefore, the null hypothesis that the regression weights are equal to zero is rejected, in favor of the alternative hypothesis suggesting causality relationships for each hypothesis.

3.3 Education Level's Impact on Accounting Perception

The analysis of the data shows that education level significantly influences accounting perception. This is demonstrated by a CR value of 2.244, which is greater than 1.96, and a P-value of 0.006, which is less than 0.05 ($p < 0.05$). Both variables are causally related, meaning the hypothesis that education level affects accounting perception among SME stakeholders in the Province of Jambi is accepted.

3.4 Business Scale's Impact on Accounting Perception

The analysis of the data shows that business scale significantly influences accounting perception. This is demonstrated by a CR value of 2.066, which is greater than 1.96, and a P-value of 0.002, which is less than 0.05 ($p<0.05$). Both variables are causally related, meaning the hypothesis that business scale affects accounting perception among SME stakeholders in the Province of Jambi is accepted.

3.5 Education Level's Impact on Financial Report Preparation

The analysis of the data shows that education level significantly influences financial report preparation. This is demonstrated by a CR value of 2.457, which is greater than 1.96, and a P-value of 0.005, which is less than 0.05 ($p < 0.05$). Both variables are causally related, meaning the hypothesis that education level affects financial report preparation among SME stakeholders in the Province of Jambi is accepted.

3.6 Business Scale's Impact on Financial Report Preparation

The analysis of the data shows that business scale significantly influences financial report preparation. This is demonstrated by a CR value of 2.211, which is greater than 1.96, and a P-value of 0.001, which is less than 0.05 ($p < 0.05$). Both variables are causally related, meaning the hypothesis that business scale affects financial report preparation among SME stakeholders in the Province of Jambi is accepted.

3.7 Simultaneous Impact of Education Level and Business Scale on Accounting Perception

The calculation shows that education level and business scale simultaneously influence accounting perception, as evidenced by an F value of 116.687 at a 5% significance level or $P < 0.05$.

3.8 Simultaneous Impact of Education Level and Business Scale on Financial Report Preparation

The calculation shows that education level and business scale simultaneously influence financial report preparation, as evidenced by an F value of 118.328 at a 0.005 significance level or $P < 0.005$.

3.9 Accounting Perception's Impact on Financial Report Preparation

The analysis reveals that accounting perception significantly influences financial report preparation, as demonstrated by a CR value of 2.077, which is greater than 1.96, and a P-value of 0.000, which is less than 0.05 ($p<0.05$). Both variables are causally related, meaning the hypothesis that accounting perception affects financial report preparation is accepted.

3.10 Influence of Education Level, Business Scale, and Accounting Perception on Financial Report Preparation

Hypothesis 8 states that education level, business scale, and accounting perception collectively influence financial report preparation.

3.11 Causality Test: Regression Test

The causality test developed in this model necessitates testing the null hypothesis, which states that the regression coefficients between relationships are equal to zero, using the common t-test in regression models.

To test the simultaneous influence of education level, business scale, and accounting perception on financial report preparation, an F-test is utilized in the regression analysis, as shown in Table 1.

Table 1. Simultaneous Testing Regression Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.311	3	22.154	108.421	.000[a]
	Residual	71.443	397	.265		
	Total	121.856	400			

Source : Data Processing (2023)

Based on the analysis in Table 1, it is evident that education level, business scale, and perception of accounting collectively influence financial report preparation, as indicated by an F-statistic of 108.421 with a significance level of 0.000 or $P < 0.005$.

3.12 Indirect Influence of Education Level and Business Scale on Financial Report Preparation Through Accounting Perception

Based on calculations using the AMOS application, for the indirect testing in the full Structural Equation Model, the results can be seen in the following table:

Table 2. Indirect Influence Hypothesis Testing Results

Independent Variables	Dependent Variable	Intervening Variable	Path Coefficient
Level of education (X1)	Financial Reporting (Y2)	Accounting Perceptions (Y1)	(0.376)X(0.791)=0.298
Business Scale (X2)	Financial Reporting (Y2)	Accounting Perceptions (Y1)	(0.569)X(0.688)=0.391
(X2)			

Source : Data Processing (2023)

Table 2 illustrates the results of the analysis of path coefficients for the indirect influence between the variables. For the indirect influence of Education Level (X1) on Business Scale (Y2) through Accounting Perception (Y1), it is obtained by multiplying the direct influence of Education Level (X1) on Financial Report Preparation (Y2) by a path coefficient of 0.376 X 0.791, resulting in an indirect influence coefficient of 0.298. This means that Education Level (X1) indirectly affects Financial Report Preparation (Y2) through Accounting Perception by 29.8%. Meanwhile, for the indirect influence of Business Scale (X2) on Financial Report Preparation (Y2) through Accounting Perception (Y1), it is obtained by multiplying the direct influence of Business Scale on Financial Report Preparation (Y2) by a path coefficient of 0.569 X 0.688. Consequently, the indirect influence coefficient is 0.391, indicating that Business Scale (X2) indirectly affects Financial Report Preparation (Y2) through Accounting Perception by 39.1%.

3.13 Discussion

Education level influences the perception of accounting among micro-enterprise owners in the province of Jambi. This means that business owners with higher levels of education, according to this research, tend to have better perceptions of accounting compared to those with lower levels of education. Efforts made by micro-enterprise owners to improve their education and training will consequently lead to an improved understanding of accounting. Micro-enterprise owners should continue to enhance their knowledge and skills through education and training, whether provided by the government or through self-directed learning about accounting. This will ultimately enhance their perception of accounting.

This finding differs from previous research on the influence of education levels on perceptions of accounting. For example, a study by Hatta, A. J., & Budiyati, O. (2021) concluded that education levels do not affect the use of accounting information. This suggests that education may not be a top priority for micro, small, and medium-sized enterprise (MSME) owners when it comes to implementing accounting information.

Business scale also affects the perception of accounting among micro-enterprise owners in the province of Jambi. This indicates that the larger the scale of the business, the better their perception of accounting, and the more they recognize the importance of accounting in their operations.

Moreover, the education level of micro-enterprise owners in Jambi influences financial report preparation. Owner's education impacts the preparation and use of accounting information. Education is considered essential for a company because it plays a fundamental role in problem-solving. Education helps employees understand, interpret, and develop logical and rational thinking, thereby enhancing human resource development and productivity. Small and medium-sized enterprises (SMEs) are often unable to employ professional accountants, so the skills and competencies of business owners or managers, largely influenced by their formal education, are crucial.

This finding aligns with research by Mutiari, K. N., & Yudantara, A. P. (2021), which concluded that variables such as education level, accounting understanding, socialization, and accounting application positively influence financial report preparation according to SAK-EMKM (Financial Accounting Standards for Micro, Small, and Medium-sized Entities). This suggests that higher education levels among business owners contribute to more compliant financial reporting, promoting better business control.

Similarly, the scale of business conducted by micro-enterprise owners in the province of Jambi also influences financial report preparation. The business scale reflects the size of an enterprise based on factors like the number of employees, sales volume, and asset value (Isrososiawan, 2013). A higher income or sales achievement typically corresponds to a larger business scale. Hence, businesses can be categorized based on their scale, as defined by government classifications such as micro, small, and medium-sized enterprises (MSMEs).

This finding is consistent with research by Safitri, A., Novrina, A. S., & Dewi, S. (2022), which concluded that business scale has a positive and significant impact on financial reporting. Business scale contributes to financial reporting by determining factors like the number of employees and facilitating business productivity. Having employees simplifies financial reporting.

Education level and business scale together influence financial report preparation among micro-enterprise owners in the province of Jambi. Education involves the learning process that enables individuals or groups to acquire knowledge, self-control, intelligence, morals, ethics,

skills, and competencies, and provides advice, guidance, and role models. Business size affects capital structure, as larger businesses with higher sales growth tend to use larger loans.

This finding is consistent with research conducted by Lestari, A., Mulyanto, M., & Afifi, Z. (2023), which concluded that the education level has a positive impact on financial reporting for MSMEs. However, training in financial report preparation does not significantly affect MSMEs' financial reporting. Business size also has a positive impact on financial reporting for MSMEs according to SAK ETAP (Simplified Financial Accounting Standards for Small and Medium-sized Enterprises).

In contrast, research by Lohanda, D., & Mustikawati, R. I. (2018) reached different conclusions, indicating that the education level does not significantly affect MSMEs' financial reporting, while accounting understanding, training in financial report preparation, and education level collectively impact MSMEs' financial reporting according to SAK ETAP.

Perception of accounting influences financial report preparation among micro-enterprise owners in the province of Jambi. Perception is the process through which individuals interpret and organize sensory impressions to understand their environment. However, what individuals perceive may sometimes differ from reality, even when there is no need for such differences.

This conclusion aligns with research conducted by Setiyawati, Y., & Hermawan, S. (2018), which found that micro-business owners use accounting knowledge for their operations but not systematically. Their accounting knowledge is often basic, limited to their highest level of education. They prepare financial reports based on their limited knowledge without organizing them into specific formats such as balance sheets, income statements, cash flows, financial positions, and financial report notes. Business owners are comfortable with their simple records and do not adhere to standard accounting practices used by larger companies.

4 Conclusion

a. Education level influences the perception of accounting among micro-enterprise owners in the province of Jambi.
b. Business scale affects the perception of accounting among micro-enterprise owners in the province of Jambi.
c. The education level of micro-enterprise owners in the province of Jambi influences financial report preparation.
d. The business scale of micro-enterprise owners in the province of Jambi influences financial report preparation.
e. Education level and business scale collectively influence financial report preparation among micro-enterprise owners in the province of Jambi.
f. Perception of accounting influences financial report preparation among micro-enterprise owners in the province of Jambi.

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