

## **The influence of financial literacy and the ability to prepare financial reports on the financial performance of micro, small and medium enterprises (UMKM) in Matani II District, Tomohon City**

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### **ABSTRACT**

The purpose of this study was to find out how the influence of Financial Literacy and the Ability to Prepare Financial Statements on the Financial Performance of Micro, Small and Medium Enterprises (UMKM) in Matani II District, Tomohon City. This type of research is a quantitative method by processing primary data. The type of sample in this study is purposive sampling. The population and sample in this study are 37. The analysis in this study is multiple linear regression. The results of the study show that Financial Literacy does not have a positive and significant effect on the Financial Performance of Micro, Small and Medium Enterprises (UMKM), while the Ability to Prepare Financial Statements has a positive and significant effect on the Financial Performance of Micro, Small and Medium Enterprises (UMKM) in Matani II Village, Tomohon City.

**Keywords:** financial literacy; financial statements; financial performance

**JEL Classification:** G53; M41

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### **1. Introduction**

Indonesia is one of 11 countries that have united with the Association of Southeast Asian Nations (ASEAN). Since the end of 2015, precisely on December 31, Indonesia has begun to face the ASEAN Economy (AEC) which aims to make the ASEAN region more competitive and dynamic. The Micro, Small and Medium Enterprises (or UMKM) have an important role by providing the largest contribution to the total workforce (Abrori, 2022; Putra, 2023; Pontoh et al., 2024). UMKM, which are an abbreviation of

Micro, Small, and Medium Enterprises, are types of businesses managed by individuals, households, or small business entities (Kessek et al., 2021). UMKM have a major role in driving economic growth in society. The existence of UMKM needs to be supported so that they remain sustainable, open up more business opportunities, and create jobs (Sumual & Tala, 2023). In addition, UMKM also function as saviors during economic crises, because they are considered a potential sector (Darea et al., 2023). UMKM have been proven to be able to survive in

various conditions to achieve community welfare. The resilience of UMKM was clearly seen during the 1998 monetary crisis, where many large companies went bankrupt, but UMKM survived and even increased in number (Al Farisi et al., 2022).

The UMKM sector plays a major role in the Indonesian economy (Risman & Mustaffa, 2023). However, in general, UMKM still face various classic problems that have not been fully resolved, such as limited human resources, financial access, and marketing. Therefore, strategic steps are needed to encourage the growth of UMKM, one of which is by increasing the financial literacy of UMKM actors, so that they can manage business finances better. A good understanding of the financial aspect is very important, especially in preparing financial reports for financing applications. This shows that financial knowledge is very much needed by UMKM actors to improve their business performance.

Table 1 shows that there were decline number of UMKM in Tomohon City during 2022. Through interview informal which is part from observation early, found that a number of UMKM actors decide for close business they because a number of reasons. First, several UMKM actors experience decline income consequence impact COVID-19 pandemic. Although UMKM had recover in 2021, the number return decreased in 2022. Second, UMKM actors often face difficulty in operate business because recording finances are not optimal, so that business capital no can turn with good. Third, large number of UMKM cause competition the higher between perpetrator business, and some no can endure because lack of innovation as well as gap technology.

**Table 1. Number of UMKM in the District Matani II Tomohon City**

Year	Number of UMKM
2021	233
2022	198
2023	220

*Source: District Matani II Tomohon City*

Financial performance of UMKM is indicator success individual in reach objective business, such as capital growth, increase sales, market share, profit, and addition amount employee (Joko et al., 2022). UMKM often face various challenge in matter growth, development and power stand business. Some factors that cause problem the related with knowledge, marketing, access financing, as well as issue source power human and management finance, which ultimately can make it difficult for UMKM for compete (Khairunnisa et al., 2022). Therefore, it is needed accurate references and information for evaluate performance finance, so that you can give clear picture about condition finance a company or UMKM (Kessek et al., 2024).

One of elements that influence performance UMKM finance is finance literacy. Therefore, improved education about finance literacy is very necessary (Zulfialdi & Sulhan, 2023; Siampa et al., 2024). Finance literacy has potential influence perspective individuals to condition finance them and have an impact on the taking decision strategic. In addition, skills in compile report finance also an important factor that influences performance finance. The finding by Suryandani and Muniroh (2020) shows that finance literacy is insignificant to financial performance of UMKM. Otherwise, Idawati and Pratama (2020) show that finance literacy is significant on financial performance of UMKM. On those findings, the objective of this study is to examine the effect of finance literacy

and capabilities compile report finance to performance of UMKM in the District Matani II Tomohon City.

## 2. Literature review

### *Basic concepts*

Financial statements generally provide information about the condition of a business organization. Financial reports also provide information about a certain period's performance and financial position. Hurriyaturohman and Fitriyani (2014) find that financial information especially performance can be a basis for decision making. In term to understand the financial information, the finance literacy is very urgent. Finance literacy refers to the ability individual to understand, analyze, manage, and convey information about financial condition finance (Joko et al., 2022). A low level of financial literacy can lead to decision-making errors, resulting in inefficient and effective financial management and the potential risk of business losses (Ningtyas, 2019). The ability to prepare financial reports is needed to understand the financial situation of a company (Wahid, 2017). The process of preparing a good report not only fulfills tax and legal obligations but is also an important factor in making business decisions. The ability to prepare financial reports is closely related to intellectual aspects (Kurnia & Sari, 2024).

### *Hypothesis development*

#### *Finance literacy and financial performance*

The good understanding of finance is assumed to have an important role in managing UMKM. As a result, UMKM's players who have good financial literacy can improve their business financial performance. Empirical evidence from Fauziah and Andrianingsih (2024), Fauziah et al. (2024), and Marsenta et al. (2024) show that financial literacy is significant on financial performance.

Based on evidence, the hypothesis of this study is as follows.

*H1: finance literacy is significant on financial performance of UMKM*

### *Ability to prepare financial reports and financial performance*

The ability to prepare financial reports is an important factor in managing UMKM. The ability to prepare financial reports is the beginning of providing reliable and useful financial information for stakeholders. Findings from Fachrunnisa et al. (2024), Triana and Syera (2023), and Yuniar et al. (2024) show that the ability to prepare financial reports has a big impact on increasing the financial performance of UMKM. Based on evidence, the hypothesis of this study is as follows.

*H2: ability to prepare financial reports is significant on financial performance of UMKM*

## 3. Research method

This study uses quantitative approach with primary information. According to Syahza (2021), primary information is data that obtained directly from source. The sample of this study is UMKM in the District Matani II Tomohon City which operates in the field of culinary as well as Already stand throughout more from 2 years. Based on criteria, the total sample is 37 respondents as owner of UMKM. Following Sugiono (2016), the criteria of the sample are as follows: (1) UMKM used enter in category culinary; (2) The UMKM is stand more than 2 years; (3) The UMKM is located in the sub-district Matani II Tomohon City. The independent variables are finance literacy (Literacy) and ability to prepare financial reports (Ability) while dependent variable is financial performance (Performance). All variables in this study are measured by Likert scale and analyzed by multiple regression. In term of hypothesis decision then this study uses the level of

significance at 5%. The regression model of this study is noted as follows.

$$performance = \alpha + \beta.literacy + \beta.ability + \varepsilon$$

#### 4. Result and discussion

##### Result

Table 2 presents the descriptive statistics of financial performance, finance literacy, and ability to prepare financial reports. The finance literacy has average of 23.68 as well standard deviation of 4.130. The ability to prepare financial reports has average of 21.08 with standard deviation of 3.616. The financial performance has average of 17.65 as well standard deviation of 5.463. Those results indicate that financial performance has lower value compare to independent variables.

**Table 2. Descriptive statistics**

	N	Mean	Std. deviation
Literacy	37	23.68	4.130
Ability	37	21.08	3.616
Performance	37	17.65	5.463

Table 3 presents the results of validity test of financial performance, finance literacy, and ability to prepare financial reports. The results show that at level of 5%, all variables are valid so they can be used in further analysis. In addition, the Cronbach's Alpha for all variables are more than 0.7 (the standard of reliability test) which means those are reliable.

**Table 3. Validity and reliability test**

Item	Performance	Literacy	Ability	Status
1	0.534	0.863	0.675	Valid
2	0.713	0.853	0.595	Valid
3	0.776	0.749	0.633	Valid
4	0.799	0.849	0.802	Valid
5	0.392	0.519	0.660	Valid
6	0.690	0.380	0.545	Valid
Cronbach's Alpha	0.741	0.728	0.730	Reliable

Table 4 presents classic assumption test for the regression model. First, the result of Kolmogorov-Smirnov test shows statistic value of 0.121 and it insignificant at 5%. The result indicates that the residual error of model is normally distributed. Second, the result of collinearity test shows tolerance more than 0.1 with variance of inflation factor (VIF) less than

5 or 10. Those results indicate that the regression model is free of multicollinearity effect. Third, the heteroscedasticity test shows that all independent variables are insignificant at 5% which means those are homoscedasticity. Based on classic assumption tests then the data can be proceeded to further analysis.

**Table 4. Classic assumption test**

Model	Unst. coef.		t	Sig.	Collinearity statistics	
	B	Std. error			Tolerance	VIF
Constant	2.996	2.448	1.224	0.229		
Literacy	-0.006	0.112	-0.057	0.955	0.941	1.062
Ability	-0.025	0.074	-0.338	0.738	0.941	1.062
Kolmogorov-Smirnov test			0.121	0.186		

Table 5 presents the result of multiple regression test. The details of the analysis results can be described as follows.

1. The coefficient of Literacy is 0.303 with significance level 0.074. At level of 5%, this variable is insignificant except at level of 10%. The result implies that increasing for Literacy will increase the Performance. In other words, the better finance literacy of owner's UMKM then it can increase the financial performance.
2. The coefficient of Ability is 0.344 with significance level 0.003. At level of 5%, this variable is significant. The

result implies that increasing for Ability will increase the Performance. In other words, the better ability to prepare financial reports of owner's UMKM then it can increase the financial performance.

3. The R is 0.580 which means the correlation of dependent variable and independent variables is moderate.
4. The R-square of 0.336 means the model of the dependent variable can be explain for 33.6% by independent variables and the remain is explained by other variables that not include in this regression model.

**Table 5. Multiple regression test**

Model	Unst. coef.		Stand. coef.	t	Sig.
	B	Std. error	Beta		
Constant	11.210	3.580		3.13	0.004
Literacy	0.303	0.164	0.266	1.844	0.074
Ability	0.344	0.109	0.455	3.159	0.003
R	0.580				
R-square	0.336				
Dependent variable is Performance					

#### *Discussion*

##### *Finance literacy and financial performance*

The result of regression test shows that finance literacy is insignificant at 5% but significant at 10%. In this study, the H1 is rejected. On finding, the level literacy finance among UMKM actors in the District Matani II, Tomohon City is not the main factor to increase financial performance finance. This is possible because they experience difficulty in understand and remember information with good including in matter finance literacy. The UMKM business seems does not always depend on finance literacy in term to keep their financial performance more stable. However, there is an opportunity for entrepreneurs who have capital to take decisions in the field of finance certain, so that can reduce risk error in management finance. The finding

of this study is inconsistent with Fauziah and Andrianingsih (2024), Fauziah et al. (2024), and Marsenta et al. (2024).

##### *Ability to prepare financial reports and financial performance*

The result of regression test shows that ability to prepare financial reports is significant at 5% so H2 is accepted. The result implies that the better the ability to prepare financial reports, the better the financial performance of UMKM. The ability to prepare financial reports is an important factor in understanding the financial health of a company. Effective preparation of financial reports not only fulfills tax and legal obligations but also serves as a vital tool in making business decisions. The ability referred to in preparing financial reports is intellectual ability. Everyone has a different level of intelligence, which can be seen from the

way they solve problems in the work environment, skills in developing abilities, and the ability to complete tasks well. Therefore, entrepreneurs who are able to prepare financial reports properly will have the opportunity to achieve better performance in their business (Ilarrahmah & Susanti, 2021). This finding is consistent with Fachrunnisa et al. (2024), Triana and Syera (2023), and Yuniar et al. (2024).

## 5. Conclusion

Based on discussion it can be concluded that finance literacy is insignificant on the financial performance of UMKM in the District Matani II, Tomohon City. This study also finds that ability to prepare financial reports is the important factor to increase financial performance of UMKM in the District Matani II, Tomohon City. The ability to prepare financial reports is used to control the finance and as the base of decision-making. It is very suggested for further studies to increase the sample to get more generalizable results. Moreover, the further studies also need to consider other variables that potentially influence the financial performance of UMKM.

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