

## THE INFLUENCE OF FINANCIAL LITERACY AND QUALITY OF FINANCIAL STATEMENTS ON THE PERFORMANCE OF MSMEs IN MEDAN MARELAN

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### Abstract

This study aims to find out whether financial literacy and the quality of financial reports affect the financial performance of MSMEs in Medan-Marelan in 2023. The method used in this research uses quantitative methods. Furthermore, the data collection technique uses a questionnaire. The data analysis technique uses multiple linear regression analysis with the help of IBM SPSS Software. The research results show that (1). Financial Literacy Affects the Financial Performance of MSMEs in Medan-Marelan City in 2023. The more often financial literacy is carried out by individuals, the better the level of knowledge related to financial management will affect the financial management of a business or activity carried out. (2). The quality of financial reports affects the Financial Performance of MSMEs in Medan-Marelan City in 2023, the better the financial reports prepared by someone, all information will be easily received so that it will affect the financial performance of a business or organization. (3). Financial literacy and quality of financial reports simultaneously affect the Financial Performance of MSMEs in Medan-Marelan City in 2023

**Keywords:** Financial Literacy, Quality of financial reports, MSMEs Financial

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### 1. Introduction

The economic growth of a country is certainly inseparable from the development of SMEs or micro, small, and medium enterprises. MSMEs have a very important role in increasing the gross domestic potential (GDP) in a region (Halim, 2020). MSMEs can also answer the problem of the unemployment rate, increase people's income and reduce poverty that occurs in a country, because with MSMEs the number of jobs will increase and require a lot of workers (Hamzah L M ; Devi, 2019);(Tambunan, Debora; Fitra, Iventura; Tamba, Uli; Nainggolan, Elisabeth; Syera, 2022) , 2022; Aziz et., all, 2023). Indonesia itself is known to be very far behind in the number of existing entrepreneurs compared to neighboring countries such as Thailand and Malaysia (Novalius, 2023). This must be a serious concern for the government to be able to continue to revive the country's economy. The fact is that MSMEs in Indonesia are inseparable from various problems. In general, the problems that are often faced by MSMEs are the lack of proper training for MSME activists to be able to develop the business to be carried out, information difficulties in obtaining funding from banks, or difficulties in borrowing money at banks (Effendi, 2022). Other problems that often arise such as production techniques, and wrong or incorrect management of financial reports. In the research conducted (Al Falih, M S; Rizqi, 2001) said that it turns out that there are still quite a lot of MSME owners who have not been able to carry out and manage their business finances properly so businesses fail. This certainly affects the development and sustainability of MSMEs

(Muljanto, 2020). One of the steps that can be taken to overcome the MSME problem is to enrich knowledge about financial management (Suryandani, Wulan; Muniroh, 2018). The level of knowledge of financial management needs to be understood clearly, as well as the importance of preparing MSME financial reports correctly so that all funding can run smoothly. Based on the results of interviews with researchers, it turned out that there were still quite a lot of MSME owners who were wrong in managing their finances, namely by combining personal money with business money. This is of course what can be the cause of poor MSME performance and affects the sustainability of the business itself. Furthermore, this level of financial knowledge can be obtained by MSME owners by frequently doing financial (Al, 2017)

Financial literacy is a form of activity carried out to provide information on how to manage finances, save, invest, and others related to finance (Septiani, 2020) With financial literacy that is carried out routinely and correctly, it is hoped that someone will be able to increase knowledge about how to properly manage finances. Based on previous research, it turns out that the results of the study show that financial literacy has a positive and significant effect on the performance of MSMEs (Al, 2017) in contrast to research conducted by (Fitriasari et al., 2021 ) that literacy does not affect the performance of SMEs. The results of this different study then attracted researchers to conduct another study with a different population and add the variable quality of financial reports to the performance of MSMEs.

## **2. Theoretical Background**

### **Financial Literacy**

Financial literacy is the knowledge and abilities that a person has in managing money so that they can improve their standard of living for the better (Saskia & Yulhendri, 2020) Financial literacy can also be interpreted as a skill that a person has because of the habit of reading books or references related to financial management so that he can apply it in conducting business (Septiani, 2020). Financial literacy can affect one's behavior, as well as one's habits in managing existing finances. Maintaining books or records of all financial transactions is another benefit of financial literacy.

### **Quality of Financial Statements**

Financial reports are the results of all accounting activities or activities regarding recording, transactions related to money in an organization (Wijaya, 2018) In a business activity, of course, some transactions involve money in every process of its activity. This financial transaction is important to pay attention to so that the owner can find out the profit or loss obtained from the business activities carried out. Financial reports are a tidy and organized way to organize all transaction activity related to firm finance. Financial reports are prepared correctly and clearly so that all information related to finance can be obtained in a comprehensive and unbiased manner. With good financial reports, the performance of MSMEs or organizations can certainly be maximized and related to the sustainability of the business.

### **Financial performance**

Financial performance is a determination of measures that can measure the level of success of a business that can generate profits (Hidayatullah, 2020) According to (Yanti, 2019) that financial performance is a form of achieving business or organizational success related to the financial system that has been implemented to provide maximum profit.

Financial performance is of course what every form of MSME or organization wants to achieve in every business activity that wants profit. With good financial performance every time, it will certainly be able to help a business or organization continue to grow and be sustainable.

### 3. Methods

The population in this study are all MSMEs in Medan Marelan, North Sumatra in 2023. Based on data for 2023, there are around 3328 MSMEs in the Medan Marelan area registered with various types of sectors. Furthermore, the sample used in this study used the Slovin formula, a sample was obtained, namely 97 respondents with the fulfillment of the sample to 100 respondents (Sugiyono, 2019). Furthermore, the method used in this study is quantitative research, intending to test a predetermined hypothesis. The type of data used in this study is primary data which directly asks for answers from research respondents. Research instruments consist of financial literacy variables (X1), quality of financial reports (X2), and financial performance (Y). This type of research in this dissertation uses causal research.

### 4. Results and Discussion

#### Validity Instrument Test Results

The financial literacy variable in this study was measured using four indicators consisting of 11 statements in the research questionnaire. From the results of the research validity test on the financial literacy variable, the following results are obtained:

**Table 1.** Financial Literacy Validity Test Results (X1)

No	Item Questioner	r count	r tabel (0,05)	Explanation
1	Qustioner1	0,456	0,197	Valid
2	Qustioner2	0,434	0,197	Valid
3	Qustioner3	0,534	0,197	Valid
4	Qustioner4	0,543	0,197	Valid
5	Qustioner5	0,321	0,197	Valid
6	Qustioner6	0,423	0,197	Valid
7	Qustioner7	0,456	0,197	Valid
8	Qustioner8	0,567	0,197	Valid
9	Qustioner9	0,543	0,197	Valid
10	Qustioner10	0,551	0,197	Valid
11	Qustioner11	0,434	0,197	Valid

Source of data processed by SPSS 2023

Based on Table 1. The results of the Validity Test on the financial literacy variable above can be seen that all statement items are valid. This can be seen from the r count value which is greater than the r table value with a total of 100 respondents and a significance value of 0.05.

The next variable in this study that tested its validity was the quality of financial reports. This variable, of course, consists of four indicators with 8 statement items. The results of the validity test can be seen in Table 2 as follows

**Table 2.** Results Of The Validity Test Of The Quality Of Financial Statements (X2)

No	Item Questioner	r count	r tabel (0,05)	Explanation
1	Qutioner1	0,356	0,197	Valid
2	Qutioner1	0,457	0,197	Valid
3	Qutioner1	0,567	0,197	Valid
4	Qutioner1	0,345	0,197	Valid
5	Qutioner1	0,598	0,197	Valid
6	Qutioner1	0,543	0,197	Valid
7	Qutioner1	0,434	0,197	Valid
8	Qutioner1	0,345	0,197	Valid

Source of data processed by SPSS 2023

Based on Table 2, it can be seen that all statement items on the variable quality of financial statements are declared valid.

Furthermore, a validity test was carried out for the MSME financial performance variable. The research questionnaire on this variable consists of 5 indicators with a total of 10 statement items. The results of the validity test can be seen in the following table:

**Table 3.** Results Of Financial Performance Validity Test (Y)

No	Item Questioner	r hitung	r tabel (0,05)	Keterangan
1	Qustioner1	0,456	0,197	Valid
2	Qustioner2	0,342	0,197	Valid
3	Qustioner3	0,578	0,197	Valid
4	Qustioner4	0,442	0,197	Valid
5	Qustioner5	0,432	0,197	Valid
6	Qustioner6	0,567	0,197	Valid
7	Qustioner7	0,349	0,197	Valid
8	Qustioner8	0,347	0,197	Valid
9	Qustioner9	0,567	0,197	Valid
10	Qustioner10	0,589	0,197	Valid

Source of data processed by SPSS 2023

Based on the results of the validity test for financial performance variables which can be seen in Table 3 above, all statement items are valid. This can be seen from the value of r Count is greater than the value of the existing table r. The results of this validity test can be continued with the reliability test on the research questionnaire.

### Reliability Instrument Test Results

According to (Ghozali, 2018), the variable being tested for reliability must meet the criteria for a Cronbach Alpha value of 0.60. The results of the reliability test in this study can be seen in Table 4 as follows:

**Table 4.** Reliability Test Results for All Research Variables

No	Variable	Cronbach's Alpha	r teori	explanation
1	Financial Literacy (X1)	0,934	0,600	Reliable
2	Quality of financial reports (X2)	0,882	0,600	Reliable
3	MSME Financial Performance (Y)	0,876	0,600	Reliable

Source of data processed by SPSS 2023

Based on the results of the reliability test in this study and the results can be seen in Table 4 above, it can be seen that all of the questionnaire statement items are said to be reliable. Of course, this can be known because the Cronbach Alpha value of all statement items for each research variable is greater than 0.60.

### Normality Test Results

The normality test in research or scientific work is carried out to find out whether the data is normally distributed or not. The normality test was performed using the Kolmogorov-Smirnov test. A good research or scientific work is one whose data can be normally distributed. Following are the results of the data normality test using the Kolmogorov-Smirnov test in this study, which can be seen in Table 5

**Table 5.** Kolmogorov Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		100
Normal Parameters	Mean	.0000000
	Std. Deviation	256.371.240
Most Extreme Differences	Absolute	.087
	Positive	.054
	Negative	-.087
Kolmogorov-Smirnov Z		.087
Asymp. Sig. (2-tailed)		.767

Source of data processed by SPSS 2023

Based on the results of the Kolmogorov Smirnov test using SPSS as in Table 5 above, it can be seen that the significance value of Asymp Sig. (2-tailed) of 0.767. The value of 0.767 can of course be known to be greater than 0.05. This can indicate that all the data in this study were normally distributed.

## Hypothesis Test Results

The next test is to test the data hypothesis or t-test (partially). This test was carried out to be able to see partially the effect of the financial literacy variable (X1), and the quality of financial reports (X2) on the financial performance of MSMEs (Y) Medan Marelan Branch. The following are the results of the t-test in this study:

**Table 6.** T Test Results (Partial)

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.567	8.460		1.678	.114
	Financial Literacy	.281	.136	.342	2.234	.003
	Quality of financial reports	.247	.198	.367	3.249	.001
	a. Dependent Variable: Financial Performance					

Source of data processed by SPSS 2023

From the results of partial data hypothesis testing and the results can be seen in Table 6 above, the results obtained are:

1. The Effect of Financial Literacy on the Financial Performance of MSMEs from the results of the regression analysis in the study showed that t-count 2,234 > t-table 1,984 and a significance value of 0.003 < 0.05. From the results of the regression test, it can be concluded that the Financial Literacy variable (X1) has a positive and significant effect on MSME Financial Performance (Y) in the Medan-Marelan area in 2023.
2. The effect of the quality of financial statements on the financial performance of MSMEs from the results of the regression analysis in the study showed that t-count 3,249 > t-table 1,984 and a significance value of 0.001 < 0.05. From the results of the regression test, it can be concluded that the variable Quality of Financial Statements (X2) has a positive and significant effect on the MSME Financial Performance (Y) in the Medan-Marelan area in 2023.

### F Test Results (Simultaneous)

The next test is the F test or simultaneous test. The F or simultaneous test aims to be able to determine the effect of the independent or independent variables simultaneously on the dependent or dependent variable. The results of the F test in this study can be seen in Table 7 as follows:

**Table 7.** F Test Results (Partial)

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	269.020	2	87.007	4.561	.000 <sup>a</sup>
	Residual	750.690	96	16.778		
	Total	978.710	99			
a. Dependent Variable: Financial Performace						
b. Predictors: (Constant), Financial Literacy, Quality of financial reports						

Source of data processed by SPSS 2023

Based on the results of the F test or Simultaneous Test conducted and the results can be seen in Table 7, the F count is greater than the F table ( $4,561 > 3.090$ ) and has a significance value of  $0.000 < 0.005$ . From the results of the F test in this study, the results can be obtained that financial literacy and the quality of financial reports have a positive and significant effect on the Financial Performance of MSMEs (Y) in the Medan-Marelan area in 2023.

### Determination Test Results (R-Square)

Next, a determination test or R-Square is carried out. This test is carried out to show what percentage of the influence of the financial literacy variable, and the quality of financial reports on the MSME financial performance variable. The results of the determination test can be seen in Table 8 below:

**Table 8.** Determination Test Results (R-Square)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.532 <sup>a</sup>	.362	.542	2.60346
a. Predictors: (Constant), Finance Literacy, Quality of financial reports				

Source of data processed by SPSS 2023

The results of the determination test of this study, the results are obtained in Table 8 above. The results of the determination test in this study indicate that the MSME financial performance variable (Y) can be explained by the financial literacy variable (X1), and the quality of financial reports (X2) is 54.2%, the remaining 45.8% is influenced by other variables not examined in this study. this research. Other variables not examined in this



study can be included as follow-up variables that will be examined in the same field in the future.

### **The Effect of Financial Literacy on the Financial Performance of MSMEs in Medan-Marelan**

Based on the results of the T test in this study, it can be seen that the Financial Literacy variable has a positive and significant effect on MSME Financial Performance. This can be seen from the results of the regression analysis in the study, it was found that  $t\text{-count } 2,234 > t\text{-table } 1,984$  and a significance value of  $0.003 < 0.05$ , so this indicates that the first hypothesis or H1 is accepted. It is known that financial literacy is an ability possessed by someone because they have a habit of reading or analyzing matters related to financial problems or numbers (Widayanti et., all, 2017). The results of this study are also in line with research conducted by (Utomo & Kaujan, 2019; Suryandani & Muniroh, 2018) which provides research results that financial literacy has a positive and significant impact on financial performance. Financial literacy which is increasingly practiced by individuals is proven to be able to contribute to better insights about financial management. Good financial management will be able to improve business performance or activities carried out later.

### **The Effect of the Quality of financial reports on the financial performance of MSMEs in Medan-Marelan**

Based on the results of the t-test of the effect of the quality of financial statements on the financial performance of MSMEs, the results of regression analysis were obtained in this study with a  $t\text{-count value of } 3,249 > t\text{-table of } 1,984$  and a significance value of  $0.001 < 0.05$ . From the results of the regression test, it can be concluded that the variable Quality of Financial Statements (X2) has a positive and significant effect on the MSME Financial Performance (Y) in the Medan-Marelan area in 2023. This indicates that the second hypothesis is accepted or H2 is accepted. This research is in line with research conducted by (Hertadiani & Lestari, 2020) which shows the results that good financial management will provide better results for the performance of MSMEs in the culinary sector in East Jakarta. It is also known that the good financial reports that are prepared will make it easier for business owners to provide information related to MSME finances that are carried out so that it will be able to influence the performance of MSMEs in the future.

### **The Effect of Financial Literacy and Quality of Financial Statements on the Financial Performance of MSMEs in Medan-Marelan.**

Based on the results of the F test or Simultaneous Test that was carried out in this study, the result is that F count is greater than F table ( $4,561 > 3.090$ ) and has a significance value of  $0.000 < 0.005$ . From the results of the F test in this study, it can be obtained that financial literacy and the quality of financial reports have a positive and significant effect on MSME Financial Performance (Y) in the Medan-Marelan area. This research is in line with research conducted by (Hertadiani & Lestari, 2020) which shows the results that financial inclusion and financial management have a direct effect on the performance of MSMEs in the culinary sector in East Jakarta. This research is also in line with research conducted by (Rumain et al., 2021) which proves that financial literacy and financial management have a simultaneous effect on MSMEs in Malang City.



## 5. Conclusion

From the results of the research and discussion carried out in this research or scientific work, conclusions can be drawn, namely:

1. Financial Literacy Affects the Financial Performance of MSMEs in Medan-Marelan City in 2023. From the results of this study it can be seen that the more often financial literacy is carried out by individuals, the better the level of knowledge related to financial management and will affect the financial management of a business or activities carried out.
2. The quality of financial reports affects the Financial Performance of MSMEs in Medan-Marelan City in 2023. From the results of this study, it can be seen that the better the financial reports prepared by someone, the all information will be easily accepted so that it will affect the financial performance of a business or organization.
3. Financial literacy and the quality of financial reports simultaneously affect the Financial Performance of MSMEs in Medan-Marelan City in 2023.

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