THE EFFECT OF ACCOUNTING INFORMATION SYSTEMS AND UNDERSTANDING OF ACCOUNTING STANDARDS ON THE QUALITY OF FINANCIAL STATEMENTS IN MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES)

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Abstract: The purpose of this study was to determine and analyze the effect of accounting information systems and understanding accounting standards on the quality of financial statements partially. The approach used in this research is associative. The population in this study were MSME players assisted by the Medan City Micro, Small and Medium Enterprises Cooperative Office in the Medan Denai sub-district. This study used a saturated sample of 101 MSME players in the Medan Denai District. The data collection technique used in this study was a questionnaire. The data analysis technique in this study uses a quantitative approach using statistical analysis using the Outer Model Analysis test, Inner Model Analysis, and Hypothesis Test. Data processing in this study used the PLS (Partial Least Square) software program. The results of this study prove that partially, the accounting information system and understanding of accounting standards significantly affect the quality of financial reports of small and medium-sized businesses in Medan Denai District.

Keywords: *Accounting Information System, Understanding Accounting Standards, Financial Statements Quality*

Introduction

Micro, Small and Medium Enterprises (MSMEs) are the mainstay of the Indonesian economy. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, 99% of business forms in Indonesia are MSMEs. Although MSMEs play an important role in the Indonesian economy, managing MSME businesses is difficult (Abduh, Ridwan, & Fansury, 2023). One of them is in terms of business financial management. Having financial records is important for businesses, but in reality, many MSME players still ignore them. Recording all business income and expenses is intended to monitor the running of the business so that it can be seen how much profit is obtained and the capital that has been used for business (Ardila, Hanum, Hafsah, & Febriaty, 2022).

Having a strategic role in national economic growth does not guarantee that all MSMEs can manage their businesses well; it is not uncommon for MSMEs to experience failure in running and developing their businesses, especially micro businesses (Rialdy & Melisa, 2023). One measure of business success and success is how the business survives the competition. Many things can be done so that a business can survive, such as managing finances, running promotions, improving quality, and managing human resources (Ardila & Christiana, 2020)

Financial performance will affect the performance of MSMEs. The performance results of financial statements can provide insight into the performance of micro, small and medium enterprises (Pakpahan, 2020), which will be achieved by improving the business by proving the performance achieved. However, the ability of MSMEs to improve their operations is one of the priorities. The financial statements prepared must show that MSMEs are in line with SAK

EMKM, which must indeed be introduced and taught to help SMEs fulfil their financial reporting (Fahira B, Sahade, & Masnawaty, 2023).

Given the importance of accounting implementation in MSMEs, the Indonesian Accounting Association (IAI), a professional institution and a drafting body for Financial Accounting Standards (SAK), is trying to develop accounting standards according to the characteristics of MSMEs through the Accounting Standards Board. In 2009, DSAK approved SAK ETAP, which came into effect on January 1, 2011. SAK ETAP is an accounting standard used by companies not accountable to the general public. SAK ETAP is designed to enable SMEs to prepare financial statements about financing and business development. However, applying this standard is difficult for MSMEs, so IAI provides the Financial Accounting Standards for Micro, Small and Medium Entities (SAK EMKM), which was approved on October 24, 2016, and took effect on January 1, 2018.

PSAK No.27 (Statement of Financial Accounting Standards No. 27) is a guide for cooperatives and MSMEs to make bookkeeping before SAK ETAP is issued. Finally, DSAK with PSAK No.27 revoked PSAK No. 27 related to cooperative accounting. This is seen as the effect of IFRS centralization, making industry-based SAK revoked. This is because it has been regulated in other SAKs. With the issuance of SAK ETAP in a simple form from PSAK No. 27, it is hoped that it will be able to carry out bookkeeping and present more meaningful financial reports. This allows MSME players to stay at the pinnacle of business progress and make the right decisions based on financial reports.

The implementation of PSAK ETAP is used as a breakthrough and progress to develop accounting implementation among MSMEs. SAK-ETAP is a principle, procedure, method, or rule applied in preparing financial statements on entities without public accountants. Entities without public accountants are companies not listed on the market exchange and do not include financial institutions. SAK ETAP is one of the three pillars of SAK in Indonesia based on the Statement of Financial Accounting Standards (PSAK) and the Statement of Sharia Accounting Standards (PSAS). SAK ETAP has characteristics consisting of stand-alone standards, meaning that it does not depend on GAAP, only general transactions carried out by MSMEs, mostly using the concept of historical boarding, which is a simpler standard setting than GAAP and no changes in several years (Hendrian & Hadiwidjaja, 2016).

Many financial recording systems still use simple methods due to the lack of knowledge of entrepreneurs about the objectives, benefits and stages of financial preparation based on SAK EMKM (Wirjono & Raharjono, 2012). The failure factor of SAK implementation is due to two factors, namely internal factors in the form of a lack of human resources (HR) who do not understand accounting and external factors of lack of stakeholder supervision (Sianturi & Fathiyah, 2016). The role of accounting records includes providing financial reports according to standards, and these reports are useful as benchmarks in providing information on financial position, performance analysis, and cash flow (Savitri & Saifudin, 2018).

Actors of business MSMEs should have an understanding of accounting, but most argue that only managers and stakeholders should understand (Suparti, Nuris, Sunaryanto, & Achadiyah, 2020). Someone who understands accounting can understand the accounting procedures and then apply them to financial reports guided by the applicable financial report preparation standards (Harini, Kurniawan, & Umiyati, 2019). The level of accounting understanding produces quality financial reports, while the poor presentation of financial reports causes stakeholders to obtain misleading information, causing errors in decision-making (Puspita & Pramono, 2019);(Yenni, 2017). North Sumatra Province consists of 33 regencies and cities, one of which is Medan City. From the survey results, I found that 30 MSMEs in Medan Denai District participated in various types of business activities. Based on the temporary results of my research survey in the Medan Denai sub-district, there are 30 MSME business actors. There are three (3) MSME business actors using accounting information systems, and there are 27 business actors who do not use accounting information systems. Of all types of MSME businesses, business actors use accounting information systems and do not use accounting information systems from all 30 business actors; there are (3) three business actors who know how to use accounting standards, and there are some 27 business actors who do not understand accounting standards.

Literature Review

Quality of Financial Statements

Financial statements Financial statements are part of financial reporting. Financial reporting is one of the important elements in assessing the company's overall performance, which is presented in the company's profit (Osadchy et al., 2018). This, in principle, will have a close correlation with the quality of financial reporting itself if stakeholders see it in terms of formality and substance. In other words, the benefits of financial reporting have long been one of the suggestions for making useful decisions. According to (Beest, Braam, & Boelens, 2009), the quality of financial statements is the extent to which the financial statements presented show true and honest information. The quality of financial statements can be proxied by factor scores from the quality of market-based financial statement information, namely value relevance, timeliness and conservatism. In this study, the authors used conservatism to measure financial statement quality (Anna & Rinining, 2021).

Factors that affect the quality of financial statements include human resource competence because competent human resources will produce financial reports that are timely, relevant and comparable (Animah, Suryantara, & Astuti Widia, 2020). Research conducted by (Rahayu & Setiyawati, 2021) shows that human resource competence affects the quality of financial reports. Likewise, research by (Syahputri, Sakti, & Sabrina, 2024) shows that human resource competence affects the quality of financial reports. In contrast, research from (Hapsari, Pratomo, & Khairunnisa, 2018) shows that human resource competence does not affect the quality of financial reports. (Animah et al., 2020) and (Dewi & Hoesada, 2020) support this research, which shows that human resource competence does not affect the quality of financial reports. This makes researchers interested in testing the human resource competency variable. Another factor that affects the quality of financial statements is the application of Financial Accounting Standards.

Information Systems Accounting

According to (Ardana & Lukman, 2016), an Accounting Information system collects, records, and processes financial and non-financial data related to financial transactions to produce information for decision-making. (Kieso, Weygant, & Kimmel, 2011) suggest that the Accounting Information system collects and processes transaction data and presents financial information to interested parties. Meanwhile, according to (Krismiaji, 2015), an Accounting Information System is a system that processes data and transactions to produce useful information for planning, controlling and operating a business. From the definition described above, the accounting information system is all financial information and non-financial information related to financial transactions presented in an entity according to the user's need to produce an accurate decision. According to (Mulyadi, 2009), the Accounting Information System is an organization of forms, records, and reports that are coordinated in such a way as to provide the financial information needed by management to facilitate company management. In its preparation, the accounting information system must be able to provide the information needed quickly and on time and can meet user needs. The accounting information system must also be able to help maintain the security of company property and be made with cost emphasis so that the preparation of the system is relatively inexpensive.

Understanding Accounting

According to (Zamzami & Nusa, 2021), accounting is a process of recording, classifying, and summarizing economic information for users. Meanwhile, according to (Suhayati & Anggadini, 2009), accounting is an information system, meaning that it is produced from an integrated process, such as identifying, recording, and communicating economic information. According to (Abed et al., 2022), accounting understanding is the extent to which the ability to understand or understand accounting properly both as a set of knowledge (body knowledge) and as a process, starting from recording transactions to becoming financial statements. From the above definition, it can be said that accounting understanding is the extent to which a person understands and fully understands accounting as a process, starting from the transaction process and recording up to the process of making financial reports that are useful for parties who need these financial reports (Taufiqurrohman, Mudawanah, & Muthanudin, 2021).

Conceptual Framework

The Effect of Accounting Information Systems on the Quality of Financial Statements

The existence of an accounting information system network facility specifically designed for preparing financial reports, starting from recording journals and ledgers to financial reports, has all been systemized using computerization so that it can reduce the level of error in calculations and save time in the preparation process. Thus, it is hoped that the resulting financial statements can fulfil the expected information and improve the quality of results and the availability of timely financial reports (Hanafi & Halim, 2016).

Thanh & Ngoc, (2025) states that financial Accounting Information Systems (AIS) is crucial in creating quality financial reports. Utilization of information technology can also improve the quality of financial reports. The use of information technology is a necessity that must be met in a faster, more effective and efficient data management process. Various parties also need information at their speed. An accounting information system is an organizational component that collects, classifies, processes, analyzes and communicates financial information. The use of information technology has great benefits, especially for companies. With information technology, companies can provide, manage and report finances easily, quickly and accurately. From the various theories that explain the understanding of accounting, the utilization of accounting information systems, and the quality of financial statements above, researchers can conclude in a framework, as a simple description of the problems to be examined in this study, that accounting understanding has a relationship with the quality of financial statements, utilization of accounting information systems has a relationship with the quality of financial statements.

The Effect of Accounting Understanding on the Quality of Financial Statements

Anto & Yusran (2023) argues that to be able to produce quality financial reports, the people who carry out tasks in the financial statements must be the main concern; namely, the employees involved in these activities must understand and understand how the accounting process and implementation are carried out with guidelines on applicable regulations. This understanding of accounting is needed so that the results of financial statements are of higher quality (relevant, reliable, understandable and comparable). The company's financial statements are the final result of accounting activities. To get the correct financial statements, it is necessary to understand the entire accounting process so that it will produce correct and accurate financial statements. The quality of the people who carry out the task of preparing financial reports must be a major concern; namely, the employees involved in these activities must understand and understand how the accounting process and implementation are carried out based on applicable regulations. Based on the literature review above, the results are as described below.

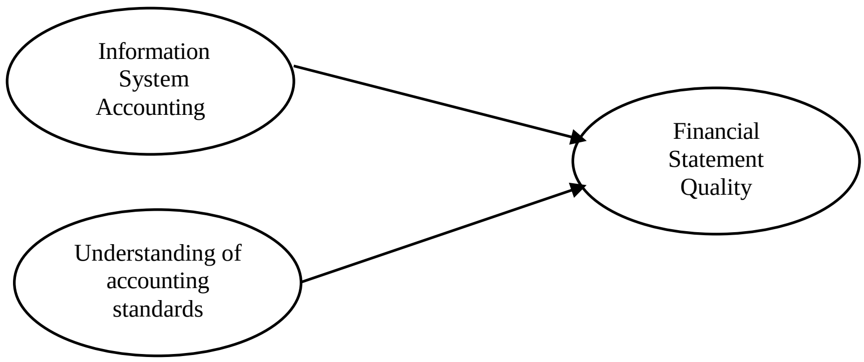

Figure 1. Conceptual Framework

Hypothesis

The hypothesis is a temporary explanation of certain behaviours or circumstances. According to (Irfan, Manurung, & Hani, 2024), the hypothesis is a temporary answer to the formulation of research problems, where the formulation of research problems has been stated in the form of a question sentence. It is a temporary answer because the hypothesis answers the problems formulated in the formulation, while data analysis needs to test the truth first. Based on the limitations and problem formulations stated above, the hypotheses in this study are:

1. The accounting information system affects the quality of financial reports of Small and Medium Enterprises (MSMEs) in Medan Denai District.
2. Understanding accounting standards affects the quality of financial reports of Small and Medium Enterprises (MSMEs) in Medan Denai District.

Method

The type of research used in this study is causality quantitative. Causal quantitative research aims to analyze the causal relationship between independent variables (variables that influence) and dependent variables (variables that are influenced) (Juliandi, Irfan, & Manurung, 2014). This study examines the effect of accounting information systems and understanding accounting standards on the quality of financial reports on micro, small and medium enterprises in Medan Denai District ". The population in this study were all MSME players assisted by the Medan City Micro, Small and Medium Enterprises Cooperative Office in the Medan Denai sub-district, totalling 101 MSMEs. Sugiyono, (2019) states that the sample is part of the population's number and characteristics. Suppose the population is large, and researchers cannot study everything in it, for example, due to limited funds, energy, and time. In that case, researchers can use samples taken from that population to determine the number/size of samples in this study using the saturated sample method where all population members are sampled. The sample in this study were 101 MSME players assisted by the Medan City Micro, Small and Medium Enterprises Cooperative Office in the Medan Denai sub-district.

The data collection techniques of this research are: (1) Questionnaire, which is data obtained by asking questions in writing to respondents. In this case, the respondents are MSME business actors in Medan Denai who are used as research samples. (2) Documentation study, namely, the data used by researchers in conducting research is quantitative. This study uses a

Likert scale, which is used to measure the attitudes, opinions, and perceptions of a person or group of people about social phenomena (Sugiyono, 2019).

This data will be analyzed using a quantitative approach using statistical analysis, namely the partial least square-structural equation model (PLS-SEM), which aims to conduct path analysis with latent variables. This analysis is often referred to as the second generation of multivariate analysis (Ghozali, 2016). Variant-based structural equation analysis (SEM) can simultaneously test the measurement and structural models. The measurement model is used for validity and reliability tests, while the structural model is used for causality tests (hypothesis testing with prediction models).

The purpose of using (Partial Least Square) PLS is to make predictions, which in making these predictions is to predict the relationship between constructs, in addition to helping researchers and their research to get the value of latent variables that aim to make predictions. Latent variables are linear aggregates of their indicators. Weight estimates to create latent variable score components are obtained based on how the inner model (structural model connecting latent variables) and outer model (measurement model, namely the relationship between indicators and their constructs) are specified. The result is that the residual variance of the variables of the dependent variable (both latent variables and indicators) is minimized.

Result and Discussion

Outer Model Analysis

Evaluation of the indicator measurement model includes checking individual item reliability, internal consistency or composite reliability, average variance extracted, and discriminant validity. The first three measurements are grouped into convergent validity.

1. Convergent Validity

Convergent validity consists of three tests: item reliability (validity of each indicator), composite reliability, and average variance extracted (AVE). It measures how much the existing indicators can explain the dimensions. This means that the greater the convergent validity, the greater the dimension's ability to implement the latent variable.

a. Reliability Item

Item reliability is what we usually call indicator validity. Testing the reliability of items (indicator validity) can be seen from the loading factor value (standardized loading). This factor loading value is the magnitude of the correlation between each indicator and its construct. The loading factor value above 0.70 is ideal, meaning the indicator can be valid for measuring the construct. However, the standardized loading factor value above 0.50 is acceptable. Meanwhile, the standardized loading factor value below 0.50 can be removed from the (Chin, 1998) model. The following is the item reliability value, which can be seen in the standardized loading column:

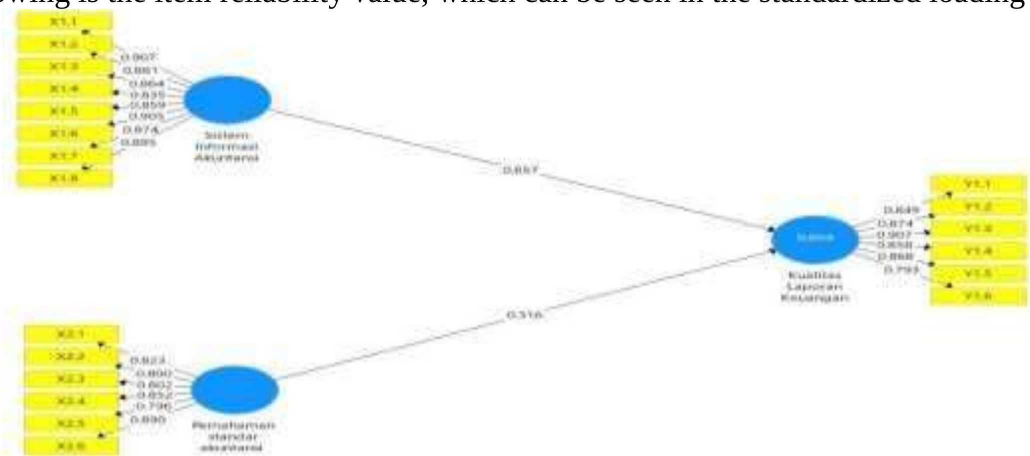

Figure 2. Standardized Loading Factor Inner and Outer Model

From the figure above, it can be seen that all loadings are worth more than 0.50, so there is no need to set aside. Thus, each indicator has been valid in explaining each latent variable, namely accounting information systems, understanding of accounting standards, and MSME financial reports.

b. Composite Reliability

The composite or construct reliability statistics are Cronbach's alpha and D.G rho (PCA). Cronbach's alpha measures the lower limit of a construct's reliability value, while composite reliability measures the true value of a construct's reliability. The rule of thumb used for the composite reliability value is greater than 0.60, and Cronbach's alpha value is greater than 0.60. With these measurements, if the value achieved is> 0.60, it can be said that the construct has high reliability...

Table 1. Composite Reliability Results

	Cronbach's Alpha	Composite Reliability
Financial Statement Quality	0.928	0.944
Understanding of accounting standards	0.908	0.929
Information System Accounting	0.957	0.964

Table 1 shows that the composite reliability value for financial report quality is 0.944, understanding accounting standards is 0.929, and accounting information system is 0.964. Furthermore, Cronbach's alpha value for financial report quality is 0.928, understanding of accounting standards is 0.908, and accounting information system is 0.957. The three patents obtained composite reliability and Cronbach's alpha values above 0.6, so it can be said that all factors have good reliability or reliability as measuring instruments.

Average variance Extracted (AVE) describes the variance that items can explain compared to the variance caused by measurement error. The standard is that the construct has good convergent validity if the AVE value is above 0.50. This means that the latent variable can explain an average of more than half the variance of its indicators.

Table 2. Average Variance Extracted (AVE) Results

	Average Variance Extracted (AVE)
Financial Statement Quality	0.738
Understanding of accounting standards	0.685
Accounting Information System	0.771

Table 2 shows that the AVE value for the quality of financial statements is 0.738, the understanding of accounting standards is 0.685, and the accounting information system is 0.771. The three variables have an AVE above 0.5, so the construct has good convergent validity where the latent variable can explain an average of more than half the variance of its indicators.

2. Discriminant Validity

The discriminant validity of the reflective measurement model is assessed based on cross-loading, and the AVE value is compared with the square of the correlation between constructs. The cross-loading measure compares the correlation of indicators with their constructs and constructs from other blocks. Good discriminant validity will be able to explain the indicator variable higher than explaining the variance of other construct indicators. The following is the discriminant validity value for each indicator.

Table 3. Discriminant Validity

	Financial Statement Quality	Understanding of accounting standards	Information System Accounting
X1.1	0.813	0.693	0.907
X1.2	0.794	0.712	0.881
X1.3	0.816	0.738	0.864

X1.4	0.752	0.688	0.835
X1.5	0.774	0.633	0.859
X1.6	0.813	0.702	0.905
X1.7	0.789	0.668	0.874
X1.8	0.806	0.675	0.895
X2.1	0.751	0.823	0.678
X2.2	0.782	0.800	0.747
X2.3	0.562	0.802	0.543
X2.4	0.610	0.852	0.595
X2.5	0.685	0.796	0.649
X2.6	0.686	0.890	0.637
Y1.1	0.849	0.649	0.745
Y1.2	0.874	0.739	0.811
Y1.3	0.907	0.811	0.803
Y1.4	0.858	0.716	0.754
Y1.5	0.868	0.669	0.809
Y1.6	0.793	0.695	0.739

Based on table 3 above shows that the largest value of discriminant validity or loading factor for the accounting information system is located at X1.1 of 0.907, or the accounting information system used presents complete data. The correlation of the X1.1 indicator is higher than the understanding of accounting standards 0.693; quality of financial statements (0.813). Furthermore, the largest value of discriminant validity or loading factor for understanding accounting standards lies in X2.6 of 0.890 or understanding the calculation of balances (the difference between the debit side and the credit side) in each account in the ledger, higher than in the accounting information system, which is 0.637. On the quality of financial statements of 0.686. Furthermore, the largest value of discriminant validity or loading factor for the quality of financial statements lies in Y1.3 of 0.907 or Financial Accounting Standards for Micro, Small and Medium Entities (SAK EMKM) helps me in preparing financial reports so that it can simplify work, higher than in the accounting information system, which is 0.803; and understanding of accounting standards of 0.811. All loading factor values for each variable correlate more with their variables than with other variables. Likewise, with the indicators of each variable. This shows that the placement of indicators on each variable is appropriate.

Inner Model Analysis

R-square measures the proportion of variation in the influenced value (endogenous) that can be explained by the variables that influence it (exogenous). This is useful for predicting whether the model is good/bad. The r-square result for endogenous latent variables of 0.75 indicates that the model is substantial (good); 0.50 indicates that the model is moderate (medium) and 0.25 indicates that the model is weak (bad) (Juliandi, 2018). Based on data processing that has been carried out using the smartPLS 3.0 program, the R-Square value is obtained which can be seen in the following figures and tables:

Table 4. Results of R^2

	R Square	R Square Adjusted
Financial Statement Quality	0.859	0.855

From Table 4, it is known that the effect of accounting information systems and understanding of accounting standards on the quality of financial statements with an r-square value of 0.859 indicates that the variation in the value of the quality of financial statements can be explained by the variation in accounting information systems and understanding of accounting standards by 85.7% or in other words that the model is substantial (good), and other variables influence 14.3%.

Hypothesis Testing

This test is to determine the path coefficient of the structural model. The goal is to test the significance of all relationships or hypothesis testing. Hypothesis testing in this study is divided into direct influence and indirect influence. Based on data processing that has been carried out using the smartPLS 3.0 program, the image of the direct and indirect effect hypothesis test results can be seen in the following path coefficient image:

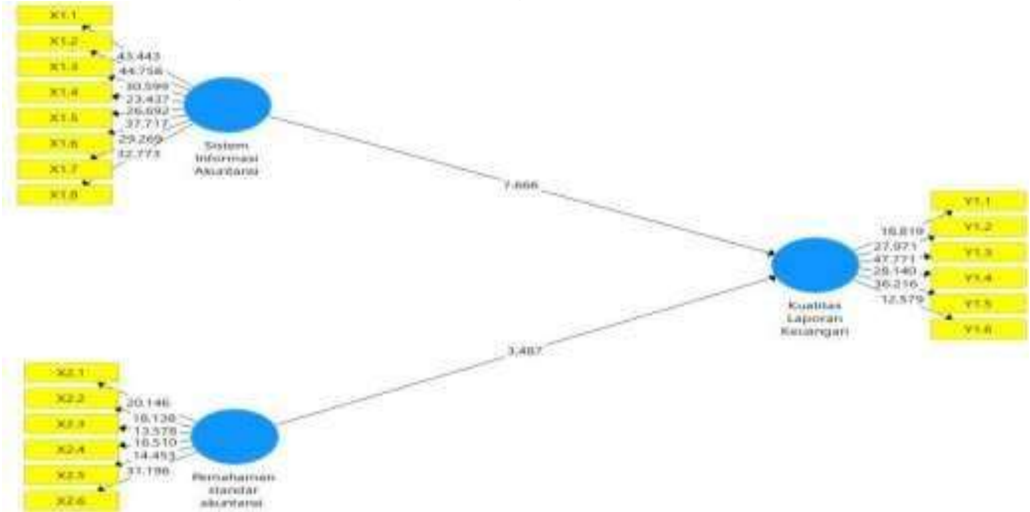

Figure 3. T-Value Inner and Outer Model

Evaluating a structural model involves several steps. The first is to determine the significance of the influence between constructs. This can be done using the path coefficient, which describes the strength of the relationship between constructs.

The significance of the influence between constructs can be seen from the path coefficient. To assess its significance, the path coefficient must be signed by the hypothesized theory, which can be seen from the t-test (critical ratio) obtained from the bootstrapping process (resampling method). The following are the t-test results on the inner and outer models.

The t-test conducted is the result of the t-test from the bootstrap calculation. The t-test results in the figure above will then be compared with the t-table value.

Table 5. Path Coefficient Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Understanding of accounting standards -> Financial Statement Quality	0.316	0.322	0.091	3.487	0.001
Accounting Information System -> Financial Statement Quality	0.657	0.652	0.086	7.666	0.000

The test criteria is to reject Ho if t count> α= 0.05 or Pvalue< α= 5% or 0.05. From the table above, it can be seen that :

1. The t-statistic value for accounting information systems on the quality of financial statements is 7.666, and the P-value is 0.000. Ho is rejected when compared with the value of α = 0.05, then 0.000 < α = 0.05. Thus, it can be concluded that information systems significantly influence the quality of financial reports. The magnitude of the effect of the accounting information system on the quality of financial statements is 0.657.
2. The t-statistic value for understanding accounting standards on the quality of financial statements is 3.487, and the P-value is 0.001. When compared with the value of α = 0.05, 0.001 < α = 0.05 Ho is rejected. Thus, it can be concluded that understanding accounting standards significantly affects the quality of financial statements. The magnitude of the effect of understanding accounting standards on the quality of financial statements is 0.316.

Discussion

The results of this study are about the findings of this study on the suitability of theories, opinions and previous research that have been put forward by the results of previous studies and the patterns of behaviour that must be done to overcome these things. The following are seven main sections that will be discussed in the analysis of the findings of this study, namely as follows:

The Effect of Accounting Information Systems on the Quality of Financial Statements

From the hypothesis testing analysis results, the t-statistic value for the accounting information system on the quality of financial statements is 7.666, and the P-value is 0.000. When compared with the value of α = 0.05, 0.000 < α = 0.05.

0.05, so Ho is rejected. Thus, it can be concluded that information systems significantly influence the quality of financial reports. The magnitude of the accounting information system's effect on the quality of financial statements is 0.657.

This shows that the accounting information system is able to improve the quality of financial reports of Small and Medium Enterprises in the Medan Denai sub-district, where the MSME actors use SIA in preparing financial reports so that the financial reports prepared will be better. The financial reports prepared will be appropriate and timely. Accounting information systems are needed by business actors, where the business actors in question are micro, small, and medium enterprises (MSMEs) running their businesses so that they can always compete and develop. In its application, the accounting information system is created and directed to support preparing financial reports to meet the information needs of interested parties as a basis for decision-making. It can be concluded that the application of accounting information systems to support the presentation of financial reports by regulations (Iska & Lenap, 2024). The results of this study are in line with the results of previous research conducted by (Arfismanda, Irwadi, & Hendarmin, 2021); (Sutriani, Animah, & Jumaidi, 2020) and (Pangaribuan et al., 2023). The results showed that applying accounting information systems affects the quality of financial statements.

The Effect of Understanding Accounting Standards on the Quality of Financial Statements

From the hypothesis testing analysis results, the t-statistic value for understanding accounting standards on the quality of financial statements is 3.487, and the P-value is 0.001. When compared to the α value 0.05, then 0.001 < α = 0.05, so Ho is rejected. Thus, it can be concluded that understanding accounting standards significantly affects the quality of financial statements. The magnitude of the effect of understanding accounting standards on the quality of financial statements is 0.316. This shows that understanding accounting standards is able to improve the quality of financial reports of Small and Medium Enterprises in Medan Denai sub-district, where the better the understanding of MSME actors of accounting standards, MSME actors will find it easier to prepare financial reports by accounting standards that have been determined.

Anto & Yusran (2023) argues that to be able to produce quality financial reports, the people who carry out tasks in the financial statements must be the main concern; namely, the employees involved in these activities must understand and understand how the accounting process and implementation are carried out with guidelines on applicable regulations. This understanding of accounting is needed so that the results of financial statements are of higher quality (relevant, reliable, understandable and comparable). The company's financial statements are the final result of accounting activities. To get the correct financial statements, it is necessary to understand the entire accounting process so that it will produce correct and accurate financial statements. The quality of the people who carry out the task of preparing financial reports must be a major concern; namely, the employees involved in these activities must understand and understand how the accounting process and implementation are carried out based on applicable regulations. This study's results align with research conducted by (Rahmadani & Nugroho, 2023) and (Helingo, Blongkod, & Wuryandini, 2024), who found that understanding accounting affects the quality of financial statements.

Conclusion

Based on the data obtained, the data analysis that has been carried out and the discussion that has been carried out in the previous chapter, conclusions can be drawn regarding the Effect of Accounting Information Systems and Understanding accounting standards on the Quality of Financial Statements on Micro, Small and Medium Enterprises in Medan Denai District as follows: Partially, the accounting information system has a significant effect on the quality of financial reports of Small and Medium Enterprises in Medan Denai sub-district. Partially, understanding accounting standards significantly affects the quality of financial statements of Small and Medium Enterprises in the Medan Denai sub-district.

Based on the above conclusions, in this case, the authors can suggest the following: MSME players in Medan City who already have a large business scale are expected to apply accounting information to run their business. MSMEs should pay more attention to accounting and financial reporting issues. Business development and competition in this globalization era require MSME entrepreneurs/owners to always develop their businesses because MSMEs are pillars of the national economy. Further, researchers should increase the number of independent variables based on management accounting other than those used in this study while still based on further research.

This research has been attempted and carried out using scientific procedures. However, it still has limitations, namely, The factors that affect the quality of financial statements only use accounting information systems and understanding of accounting standards, while there are still many factors that affect the quality of financial statements. There are limitations to obtaining samples, such as researchers only using MSME players in the Medan Denai sub-district. At the same time, there are still many MSME players in the sub-districts in Medan.

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