

## THE ROLE OF FINANCIAL REPORTS IN ACCOUNTING RECORDING

Zahratu Syifa<sup>1</sup>  
Khairisa Aurelia<sup>2</sup>  
Nita Amelia<sup>3</sup>  
Valesty Kanda<sup>4</sup>  
Isra Hayati<sup>5</sup>

<sup>1,2,3,4,5</sup> Universitas Muhammadiyah Sumatera Utara

<sup>1</sup>[zahratus294@gmail.com](mailto:zahratus294@gmail.com)

<sup>2</sup>[khairisaaurelia123@gmail.com](mailto:khairisaaurelia123@gmail.com)

<sup>3</sup>[akunnitaamel@gmail.com](mailto:akunnitaamel@gmail.com)

<sup>4</sup>[valestyakanda@gmail.com](mailto:valestyakanda@gmail.com)

<sup>5</sup>[israhayati@umsu.ac.id](mailto:israhayati@umsu.ac.id)

**Abstract:** *This study aims to analyze the role of financial statements in the accounting recording process based on the perspective of Accounting Information Systems (AIS) Theory. This study uses a qualitative approach with data collection through in-depth literature reviews, focus group discussions, and document searches related to accounting recording and financial reporting practices. The results of the study indicate that financial statements play a role not only as output but also as an evaluation and feedback tool on the quality of the accounting recording process in an accounting information system. The research findings also reveal that weaknesses in the implementation of AIS and internal controls can cause financial statements to be used symbolically, even potentially legitimizing deviant recording practices. The contribution of this study lies in strengthening AIS Theory by positioning financial statements as a reflective instrument in an accounting information system and providing a critical perspective on AIS practices in the context of developing countries.*

**Keywords:** *Financial Reporting, Accounting, Sustainability*

### Introduction

Financial statements are the primary output of the accounting recording process, serving as a means of providing financial information to various stakeholders. In the context of modern organizations, financial statements are used not only as a management accountability tool but also as a basis for economic decision-making (Kieso, Weygandt & Warfield, 2019). The reliability of financial statements is largely determined by the quality of the accounting recording process, which includes the recognition, measurement, recording, and reporting of financial transactions (Horngren, Sundem & Elliot, 2018). However, in practice, many entities still face problems in the consistency, accuracy, and transparency of accounting records, which ultimately impact the quality of the resulting financial statements. Therefore, understanding the role of financial statements in the overall accounting recording process is an important issue relevant to scientific study.

Several previous studies have shown that financial reporting is closely related to accounting systems and recording practices. Previous research has found that the application of appropriate accounting standards in the recording process can improve the relevance and reliability of financial reports. Other studies confirm that the quality of financial reports is influenced by the competence of accounting human resources, accounting information systems,

and internal controls in the recording process. Furthermore, several empirical studies have revealed that quality financial reports are able to reflect an orderly and systematic accounting recording process, thereby minimizing the risk of errors and manipulation of financial data. These findings indicate that financial reports cannot be separated from the underlying accounting recording process.

Although numerous studies have examined the quality of financial reports and the factors that influence them, research specifically considering financial reports as an integral part of the accounting recording process is relatively limited. Most studies focus on financial reports as the end result, rather than as an active element in the accounting recording cycle. Furthermore, previous research tends to focus on the technical aspects of recording or compliance with standards, without deeply examining how financial reports function as an evaluation tool and feedback on the recording process itself. These limitations indicate a research gap that needs to be filled to gain a more comprehensive understanding.

This research offers novelty by positioning financial statements not only as output but also as an instrument that plays a strategic role in the accounting recording process. The research's novelty lies in its conceptual approach, which integrates financial statements as a means to evaluate the quality of accounting records and as a basis for continuous improvement in the accounting system. Thus, this research provides a new perspective that emphasizes the reciprocal relationship between the recording process and financial statements, a topic that has not been widely explored in the accounting literature.

This research focuses on analyzing the role of financial statements in supporting and reflecting the quality of the accounting recording process. The objective of this research is to understand how financial statements can function as an evaluation and control tool for the accounting recording process. The research questions addressed include the role of financial statements in the accounting recording process and the extent to which financial statements reflect the quality of the recording. This research employed a qualitative method with a literature review approach and conceptual analysis of theories and previous research findings. Thus, it is hoped that it will provide a theoretical contribution to the development of accounting science and serve as a reference for further research.

### **Literature Review**

Financial statements are the primary means of conveying financial information generated through a systematic and standardized accounting process. Financial statements are defined as a structured presentation of an entity's financial position, performance, and cash flows, intended to provide useful information to users in making economic decisions (Kieso, Weygandt, & Warfield, 2019). Financial statements are also viewed as the end result of the accounting cycle, which includes recording, classifying, summarizing, and reporting financial transactions (Hornngren, Sundem, & Elliott, 2018). Thus, financial statements reflect the overall quality of an entity's accounting process.

Global research shows that the quality of financial reporting is significantly influenced by the effectiveness of the accounting recording system. Romney and Steinbart (2021) found that a well-designed accounting information system can improve the accuracy of transaction recording and produce more reliable financial reports. Other research shows that the use of information technology in accounting recording improves the timeliness and consistency of financial reporting (Laudon & Laudon, 2020). These findings confirm that financial reports are a direct reflection of the accounting recording process integrated within an information system.

International studies also highlight the role of financial reports as a tool for evaluation and decision-making. Dechow, Ge, and Schrand (2010) concluded that high-quality financial reports reflect a transparent and consistent accounting process, thereby reducing information asymmetry. Ball and Brown (1968) demonstrated that financial reports resulting from good accounting records contain relevant information for predicting future company performance. These research findings reinforce the view that financial reporting serves not only as a historical record but also as an indicator of accounting record quality.

In Indonesia, research on financial reporting practices in accounting records shows that various problems persist. Mulyadi (2016) stated that weak accounting record-keeping systems and internal controls directly impact the low quality of financial reports, particularly in public sector entities and small and medium-sized enterprises. Research by Harahap (2017) also found that limited accounting human resource competency is a major factor in recording errors that lead to unreliable financial reports. This situation indicates that accounting record-keeping practices in Indonesia still face structural challenges.

Various cases of financial reporting in Indonesia demonstrate that financial reporting problems often stem from inadequate accounting recording processes. Siregar and Utama (2008) found that earnings management practices in public companies are closely linked to weak accounting recording and oversight systems. Furthermore, Bastian (2015) demonstrated that inconsistencies in accounting records with government accounting standards lead to low accountability in public sector financial reports. These cases demonstrate that financial reports can be used as a tool to identify weaknesses in the accounting recording process.

### **Research gap**

Although extensive research on financial reporting and accounting records has been conducted, most studies still position financial reports as the final output of the accounting process. Previous research has focused more on the quality of financial reports or the level of compliance with accounting standards, but little has examined the role of financial reports as a tool for evaluation and feedback on the accounting recording process itself (Scott, 2015). This limitation indicates a research gap that requires a more integrative conceptual approach.

### **Research novelty**

The novelty of this research lies in its approach, which views financial statements as an active and strategic part of the accounting recording process. This research positions financial statements not only as the end result but also as an instrument for assessing the quality, consistency, and reliability of accounting records. This approach integrates the perspectives of accounting information systems and the usefulness of information for decision-making, as proposed by Romney and Steinbart (2021) and Scott (2015), which have rarely been studied in depth in previous research.

### **Method**

This research method uses a descriptive qualitative approach with the aim of in-depth understanding of the role of financial statements in the accounting recording process within the framework of an Accounting Information System (AIS). This approach was chosen because the research does not focus on testing statistical relationships, but rather on interpreting the practices, meanings, and functions of financial statements as applied in an organizational context. Data were analyzed interpretively through the stages of literature review, data collection and reduction, and drawing conclusions based on AIS theory, resulting in a clear and contextual understanding of the role of financial statements in the accounting recording process.

### Results and Discussion

The discussion of the results of this study indicates that financial reports have a more complex role than simply being the end result of the accounting recording process. This finding aligns with the view that financial reports are an integral part of the accounting information system, reflecting the entire financial data processing process (Romney & Steinbart, 2021; Kieso et al., 2019). The results of this study indicate that financial reports function as a reflective mechanism within the accounting information system, where the quality of the financial reports directly reflects the quality of the preceding recording process (Hornigren et al., 2018; Dechow et al., 2010).

Furthermore, this study found that financial reports also serve as a tool for evaluating and providing feedback on accounting recording practices. This finding supports the feedback concept in accounting information systems, which states that system output is used to assess and improve data input and processing (Romney & Steinbart, 2021). Informants emphasized that discrepancies, inconsistencies, or anomalies in financial reports are often early indicators of weaknesses in the recording process, as also found in research on earnings quality and accounting error detection (Dechow et al., 2010; Scott, 2015). Thus, financial reports are not passive but rather play an active role in maintaining the quality of accounting information systems.

However, the findings of this study also reveal a reality that contrasts with some previous normative research, particularly in the context of organizations with internal control weaknesses. This study found that financial statements may be formally prepared in accordance with accounting standards, but not fully represent actual recording practices, a condition referred to as symbolic compliance in the critical accounting literature (Meyer & Rowan, 1977; Scott, 2015). This finding challenges the assumption that compliance with accounting standards automatically reflects quality recording and suggests that AIS can function symbolically when used solely to satisfy administrative demands (Hopwood, 1987).

In the Indonesian context, the findings of this study confirm previous research linking weaknesses in AIS and internal controls to irregularities and corruption. The study found that financial statement manipulation is often rooted in deliberate recording processes to obscure certain transactions, as identified in research on earnings management and corporate governance in Indonesia (Siregar & Utama, 2008; Harahap, 2017). These findings also align with public sector studies showing that weak implementation of AIS and internal controls leads to low transparency and accountability in financial statements (Bastian, 2015; Mulyadi, 2016). In such circumstances, financial statements function more as an instrument of legitimacy than as a tool for transparency.

Furthermore, this study also demonstrates the potential of AIS as a fraud prevention tool when financial statements are used critically and analytically. Informants from organizations with strong internal control systems stated that regular financial statement analysis drives continuous improvement in the recording process, as confirmed in the literature on the relationship between AIS, internal control, and organizational accountability (Romney & Steinbart, 2021; COSO, 2013). These findings support research emphasizing that an effective AIS must be supported by an ethical culture and competent human resources to improve reporting quality and accountability (Laudon & Laudon, 2020). The discussion also demonstrates that this study offers a new perspective compared to much of the previous literature that positions financial statements as a neutral end result. The findings emphasize that financial statements are constructive and reflective, as they are shaped by accounting recording practices and simultaneously reshape those practices through their evaluative function (Giddens, 1984;

Scott, 2015). This perspective broadens the understanding of Accounting Information Systems Theory by adding the dimension of reflexivity to financial statements within accounting information systems.

Equally important, the findings of this study challenge the technocratic view that views AIS solely as a technological system. The study found that human factors, organizational interests, and power relations play a significant role in determining how financial reports are prepared and utilized, as emphasized in the critical accounting and sociology of accounting literature (Hopwood, 1987; Laughlin, 1999). These findings demonstrate that AIS is never completely neutral, but rather is influenced by the social, political, and institutional context of the organization.

By linking the findings of this study with various previous studies, both normative and critical, this discussion confirms that the role of financial reports in the accounting recording process is dynamic and contextual. Financial reports can serve as a tool for transparency and control when the AIS and internal controls are effective, but they also have the potential to become an instrument for legitimizing irregularities when these systems are weak (Scott, 2015; Bastian, 2015). These findings open up space for further research that examines the role of financial reports in the AIS from a critical and contextual perspective, particularly in developing countries.

### Conclusion

This study concludes that financial statements have an inseparable and reflective role in the accounting recording process based on the perspective of Accounting Information Systems (AIS) Theory. Financial statements not only function as the final output, but also as an evaluation tool capable of reflecting the quality, consistency, and integrity of the accounting recording process. The research findings indicate that the quality of financial statements is highly dependent on the effectiveness of the AIS, including recording procedures, internal controls, and the role of human resources. Thus, this study answers the research question that financial statements play an active role in supporting, controlling, and evaluating the accounting recording process in an integrated accounting information system.

Based on the research findings, this study provides theoretical and practical contributions. Theoretically, this study enriches the development of AIS Theory by emphasizing the position of financial statements as a reflective and evaluative instrument in an accounting information system, not merely as a reporting outcome. This study also contributes to the accounting literature by presenting a contextual perspective linking AIS to the dynamics of accounting practices and potential irregularities. Practically, the study's findings provide implications for organizations and policymakers to strengthen the role of financial statements as a control and transparency tool by improving the quality of accounting records and internal control systems.

### References

- Ball, R., & Brown, P. (1968). An empirical evaluation of accounting income numbers. *Journal of Accounting Research*, 6(2), 159–178.
- Bastian, I. (2015). *Public sector accounting: An introduction*. Jakarta, Indonesia: Erlangga.
- COSO. (2013). *Internal control—Integrated framework*. New York, NY: Committee of Sponsoring Organizations of the Treadway Commission.
- Dechow, P. M., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2–3), 344–401.

- Giddens, A. (1984). *The constitution of society: Outline of the theory of structure*. Cambridge, England: Polity Press.
- Harahap, SS (2017). *Accounting theory*. Jakarta, Indonesia: RajaGrafindo Persada.
- Hopwood, A.G. (1987). The archeology of accounting systems. *Accounting, Organizations and Society*, 12(3), 207–234.
- Hornngren, C.T., Sundem, G.L., & Elliott, J.A. (2018). *Introduction to financial accounting* (11th ed.). Boston, MA: Pearson Education.
- Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2019). *Intermediate accounting* (16th ed.). Hoboken, NJ: John Wiley & Sons.
- Laudon, K.C., & Laudon, J.P. (2020). *Management information systems: Managing the digital firm* (16th ed.). Harlow, England: Pearson Education.
- Laughlin, R. (1999). Critical accounting: Nature, progress and prognosis. *Accounting, Auditing & Accountability Journal*, 12(1), 73–78.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2), 340–363.
- Mulyadi. (2016). *Accounting systems* (4th ed.). Jakarta, Indonesia: Salemba Empat.
- Romney, M.B., & Steinbart, P.J. (2021). *Accounting information systems* (15th ed.). New York, NY: Pearson Education.
- Scott, W.R. (2015). *Financial accounting theory* (7th ed.). Toronto, Canada: Pearson Canada.
- Siregar, SV, & Utama, S. (2008). Types of earnings management and the effect of ownership structure, firm size, and corporate-governance practices: Evidence from Indonesia. *The International Journal of Accounting*, 43(1), 1–27.