

The Prospect Of Accounting Standard Implementation: Micro, Small And Medium Entities Based On Quality Of Effective Applicable Financial Statements On January 01, 2018 (Study On Small Medium Enterprises In Rokan Hulu District)

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Abstract. The purpose of this study was to obtain an overview of the analysis of the effect of education level, educational background, business size, length of business on the quality of SMEs financial reports and the prospect of implementing SMEs IFRSs in Rokan Hulu Regency, Indonesia. The population in this study were SMEs registered in Rohul in accordance with the data of Depkop Rohul in 2016 amounting to 815 SMEs consisting of 5 (five) business classifications. The taking technique uses purposive sampling, a technique that aims to capture as much information as possible from various sources. The data of this study were analyzed using multiple regression analysis methods with hypothesis testing and descriptive analysis. Based on the research that has been done, it can be taken some conclusions regarding the condition of SMEs, in Rokan Hulu Regency; 1) The owner's education level does not affect the quality of financial statements in SMEs in Rokan Hulu Regency, 2) The owner's educational background does not affect the quality of financial statements in SMEs in Rokan Hulu Regency, 3) Business measures affect the quality of financial statements on SMEs in Rokan Hulu Regency. The results of this study provide empirical evidence that larger size SMEs institution tend to record financial statements, 4) Duration of business influences the quality of financial statements in SMEs in Rokan Hulu Regency. The results of this study provide empirical evidence that SMEs institution that have been established for a long time tend to record financial statements, and 5) The prospect of implementing SMEs IFRS is still low, meaning that to implement financial reporting standards for SMEs players there are many obstacles, especially for micro SMEs and small, for them financial statements are not very important, the need for new financial statements is felt if they are going to apply for a loan, and even then they can ask for assistance from the lender to make the report as requested by the lender. The results of the research on the prospects and readiness of SMEs in adopting and implementing Financial Accounting Standards on Entity Without Public Accountability (SAK ETAP), are still very lacking, most SMEs do not yet know and have never prepared financial reports, especially in accordance with previously established standards, namely SAK ETAP, as well as new standards that will be implemented starting in January 2018, for this reason to the related parties namely IAI and the Office which is in charge of SMEs in order to find a way out for SMEs in preparing financial reports that are highly needed by SMEs so that the difficulties faced by SMEs can be overcome.

Keywords: Implementation prospects, financial report quality, Small Medium Enterprises (SMEs)

1. INTRODUCTION

The 1997 to 1998 monetary crisis has reopened the government's view on the importance of paying attention to the Micro, Small and Medium Enterprises (SMEs) sector, which at the time of the crisis occurred that SMEs tend not to experience too serious impacts and even tend to survive, so until now this in the United Indonesia cabinet II volume led by Susilo Bambang Yudoyono through the ministers of industry and trade or the minister of cooperatives increasingly serious in promoting the formation of new SMEs in Indonesia, because the government is aware that SMEs contribute around 53% of the national Gross Domestic Product/GDP (Statistic Board Republic of Indonesia/BPS, 2006). Micro, Small and Medium Enterprises have an important and strategic role in national economic development. In addition to playing a role in economic growth and employment, SMEs also play a role in distributing development outcomes. SMEs have also proven to be unaffected by the crisis. When the crisis hit in the period of 1997 and 1998, only SMEs were able to stand firm. (BI, 2015). According to the World Bank, Indonesia's own livelihoods are highly dependent on the SMEs sector, most of these small businesses are concentrated in the trade, food, processed food, textile and garment sectors, wood and wood products, and the production of non-metallic minerals. Overall, the SMEs sector is estimated to contribute around more than 50% of GDP (mostly in the trade and agriculture sectors) and around 10% of exports.

Likewise with data released by BPS, it shows that SMEs contribute greatly to providing employment opportunities of 96.99 percent to the formation of GDP of 60.34 percent. SMEs also contributed to the increase in the country's foreign exchange in the form of export revenues of 27,700 billion and created a role of 4.86% of total exports. (BPS, 2014). SMEs not only play a role as a support for the life of the nation and state, but also contribute to foreign exchange earnings from export activities. The contribution of the SMEs sector to Indonesia's exports in 2015 amounted to 15.8 percent, far smaller than in other countries in Southeast Asia. The contribution of the Thai SMEs sector to exports was 29.5 percent and the Philippines was 20 percent. At the global level, the contribution of the German SMEs sector to exports reached 55.9 percent and Japan was around 53.8 percent. (Ministry of Industry, 2015). Compared to various countries, the contribution of Indonesian SMEs is still low as mentioned above, but this contribution is very meaningful for the business continuity of the people, it is proven that SMEs are able to withstand various crises that have occurred since 1998. This is mentioned in the report released by BI (2014) that the SMEs Business contributed around 60% of GDP (Gross Domestic Product) and opened employment opportunities for the community. The contribution or role of SMEs in the country in Indonesia to gross domestic product increased from 57.84 percent to 60.34 percent in the last five years. Uptake of labor in this sector also increased,

from 96.99 percent to 97.22 percent in the same period. (Ministry of Industry, 2015). SMEs in several countries also contribute as much as in Indonesia. It is recorded that the number of SMEs in developed countries reaches an average of 90% of the total business units, and absorbs 2/3 of the total number of unemployed workers (Baas and Schrooten 2006). South Africa is one country with 95% of its business sector being SMEs. This sector contributes 35% on average to gross domestic product annually, and can reduce as much as 50% of the unemployment rate in the country (Zimele, 2009). The existence of SMEs cannot be doubted because it is proven to be able to survive and become the economic driving force, especially after the economic crisis. On the other hand, SMEs also face many problems, namely limited working capital, low human resources, and lack of mastery of science and technology (Sudaryanto and Hanim, 2002). The development of SMEs in Indonesia is still faced with a variety of problems, causing a weak competitiveness of imported products. The main problems faced by SMEs include limited infrastructure and government access related to licensing and bureaucracy and high rates of levies. With all the problems that exist, the potential of large SMEs becomes hampered. Although SMEs are said to be able to withstand the global crisis but in reality the problems faced are very many and heavier. That is because in addition to being indirectly affected by the global crisis, SMEs must also face domestic problems that have not been resolved such as the problem of labor wages, employment and illegal fees, corruption and so on. (Sudaryanto et al., 2012). Other problems in the development of SMEs include capital. SMEs must continue to be developed in order to advance and have competitiveness in front of large businesses, so that it remains the heart of Indonesia's developing economy. This is not only the responsibility of the government. The SMEs actors themselves should also have the desire to develop. The government should be able to solve classic problems that in SMEs. Namely access to markets, access to capital, access to technology. In addition to work conditions, new business promotions, access to information, quality of products and human resources, business and cluster development services, business networks and competitiveness. Financing or capital is still an obstacle because of the difficulty in obtaining bank loans for SMEs such as business feasibility, 3-month accounts must be good and the existence of collateral and the length of business. The fact in the field is that many SMEs entrepreneurs are actually very feasible, but are considered not bankable simply because of collateral problems or the length of business. There is indeed a People's Business Credit (KUR), but this credit scheme sets a very high interest rate for SMEs entrepreneurs, especially those who have just started business. (Kabarbisnis, 2015). Data from the Ministry of Cooperatives and SMEs said, nationally, the total number of SMEs players in the first and second clusters, which were vulnerable to financing micro enterprises, reached 50.70 million business units. A total of 35.49 million businesses or 70% are businesses that are not feasible and not yet bankable, so they have a high risk of returning capital. The remaining 15.21 million businesses or 30% are feasible but not yet bankable. Nationally, the total number of SMEs actors including the first and second clusters that had difficulty accessing financing reached

50.70 million business units. nationally, the total number of SMEs players in the first and second clusters, which are vulnerable to financing micro enterprises, reached 50.70 million business units. A total of 35.49 million businesses or 70% are businesses that are not feasible and not yet bankable, so they have a high risk of returning capital. The remaining 15.21 million businesses or 30% are feasible but not yet bankable. Nationally, the total number of SMEs actors including the first and second clusters that had difficulty accessing financing reached 50.70 million business units. The dominant obstacle in the development of SMEs is in getting capital or financing, specifically for this the government has tried to find a solution, one of these programs is the People's Business Credit (KUR) which in 2009 is targeted to be around IDR 20 trillion. One manifestation of the government's effort to increase SMES access to capital is by organizing the People's Business Credit (KUR) program, but even though the KUR program has been running and in 2012 the growth of SMEs lending in the Bank Business Plan (RBB) is predicted to increase by 18 percent, or to Rp151 trillion from 2011 which amounted to Rp.128.2 trillion, it was noted that the realization of SME loans in 2011 to banks in Indonesia only reached 66.8 percent of the 2011 RBB (Sindonews.com, 2012). The majority of Micro, Small and Medium Enterprises (EMKM)/SMEs in Indonesia find it difficult to get access to banks and other funding sources. This condition occurs because SMEs does not have adequate financial reports and according to the standards that apply in the financial industry. In fact, the contribution of SMEs to domestic economic growth reached 60 percent. (IAI, 2016). Before the SAK SMEs was made, which was implemented by the Indonesia Accountant Institute (IAI), what was done by SMEs was the modification or miniature SAK ETAP of IFRS, but most SMEs were still difficult to implement in operational activities or activities, especially in preparing financial statements, because SAK ETAP, which was adopted mostly from IFRS, was too broad, making it difficult for SMEs to follow it as a guide in preparing their financial statements. This does not only happen in Indonesia, but in some countries such as South Africa, according to ZR Koppeschaar (2012) that IFRS for SMEs is still too broad for most small companies. IFRS for SMEs does not meet the needs of South African users from the financial statements of small companies, and as a result must be simplified. With the enactment of the SMEs SAK it is hoped that it can help around 57.9 million SMEs players in Indonesia in preparing their financial statements appropriately without having to be trapped in the complexity of the current financial accounting standards. This SMEs SAK is a financial accounting standard that is much simpler when compared to SAK ETAP. For example, from a technical point of view, SMEs SAK purely uses the basis of historical cost measurement so that SMEs are sufficient to record their assets and liabilities at the cost of their acquisition. With adequate accounting, SMES entrepreneurs can fulfill the requirements in applying for credit, such as making financial reports (Warsono, 2009). However, the implementation of the bookkeeping is a difficult thing for SMEs due to limited knowledge about accounting, the complexity of the accounting process, and the assumption that financial statements are not important for SMEs. (Rizki R in Amri M Said, 2012). This research

refers to the research of Rudiantoro and Siregar (2012) which examined the quality of SMEs financial reports and the prospects for implementing SAK ETAP. This study replicates several research variables including SAK ETAP and the quality of SMEs financial reports. The number of constraints on the part of SMEs in obtaining capital from the banks is related to the lack of knowledge of personnel managing SMEs in making reports, especially financial reports, that are a requirement in applying for loans. To be able to compile financial reports for SMEs, you must understand and understand accounting and accounting activities. Almost all Small and Medium Enterprises (SMEs) in Indonesia, in preparing financial reports are considered not feasible and even shambles, the poor financial reporting of SMEs makes it difficult for banks to glance at the banks, because they do not meet the requirements for business feasibility. Adequate accounting or bookkeeping for SMEs entrepreneurs can be used as one to fulfill the requirements in credit applications, which include financial statements, evaluating performance, knowing financial positions, calculating taxes, and other benefits (Warsono, 2009). Bookkeeping or accounting to produce financial reports is still difficult for SMEs. The limitations of accounting bookkeeping knowledge, the complexity of the accounting process, and the assumption that financial statements are not important for SMEs (Said, 2009). Various other limitations faced by SMEs ranging from educational backgrounds that do not know about accounting or bookkeeping, lack of discipline and diligence in the implementation of accounting books, to the absence of sufficient funds to hire accountants or buy accounting software programs to facilitate the implementation of accounting books. The same study of SMEs in Pekanbaru City resulted in the prospect of implementing SAK-ETAP in Pekanbaru City still very low, only 13% of respondents knew about SAK-ETAP information and none of the respondents claimed to understand the contents of the SAK ETAP (Gusnardi et al, 2015). The importance of accounting for SMEs is also mentioned by Ashok Chakraborty (2016) that poor accounting practices can hinder the growth and sustainability of SMEs, how different stakeholders are affected due to lack of quality accounting information, effective and systematic accounting practices needed to improve operational efficiency, the profitability and growth of SMEs. The financial statements prepared by SMEs must be in accordance with the standards set in this case SMEs SAK, previously at SAK ETAP, to be able to prepare quality reports there are several factors that need to be considered including education level, educational background, business size and length of business may affect the financial statements of accounting information reflected in accounting records. Many studies have been conducted including researching accounting records and the use of accounting information. (Sri Mulyani, 2014). Another factor was presented by Grace (2003), namely the length of business and formal education has an effect on the presentation and use of accounting information. Then Murniati (2002) states that the educational background of managers, the age of the company, the scale of business influences the use of accounting information on SMEs. Another factor was revealed by Wahyudi (2009) that the education level of the owner or manager and the scale of business influence the use of accounting information. This

research will be conducted in Rokan Hulu Regency, which is one of the districts in Riau Province with its capital located in Pasir Pangaraian. Based on Permendagri No.66 of 2011, Rokan Hulu Regency has an area of 7,588.13 km² with a population of 513,500 people. Administratively, this district has 16 sub-districts, 7 sub-districts and 149 villages. Rokan Hulu Regency is known as the "Land of a Thousand Suluk". Based on data from the Office of Cooperatives, Industry and Trade of Rokan Hulu Regency, there were around 814 SMEs recorded in 2013 in 6 (six) business groups and spread in 16 Districts. Based on these data and the background mentioned above, it is necessary to conduct research to determine the prospects and implementation of SMEs SAK on quality-based financial statements in Rokan Hulu Regency, because the new SMEs SAK was launched by IAI as a replacement for SAK ETAP, whether SMEs personnel in Rokan Upstream is ready or not in implementing the SMEs SAK which is implemented beginning in 2018. After finding out the factors that can improve the quality of SMEs financial reports, we can find out how the prospects and implementation of SMEs SAK in Rokan Hulu Regency.

2. LITERATURE REVIEW

Research on the quality of financial reports and SMEs as well as the standards that underlie financial reporting has been widely carried out, this study tries to present the required new standards for SMEs in accordance with what has been determined by the IAI, the SMEs SAK which was launched at the end of 2016. Several studies on financial report standards for SMEs with previous standards, namely SAK ETAP, relate to the quality of SMEs financial reports on the importance of financial accounting and reporting for business growth and development such as the latest education level, educational background, business size, and length of business. some researchers include : Research Sukirno, (1994) concluded that the duration of a business can lead to business experience, where experience can affect one's observations in behaving, long time ago the SMEs business usually may have experience with credit loans for capital. Research conducted by Pinasti (2001) states that the duration of business, especially SMEs, which has been going on for quite a long time, allows the entrepreneur to prioritize financial statements or ignore them. The duration of an established business is expected to have an influence on the perception of SMEs entrepreneurs formed. Pinasti (2001) also states that business measures can influence the thinking of entrepreneurs related to the complexity and the increasing level of company transactions, so it is expected that with greater size of business it can encourage someone to think and learn related solutions to deal with it. The educational background of entrepreneurs from the accounting field usually has a perception of the importance of making financial statements different from the non accounting field. The background of SMEs entrepreneurs both from accounting and economics or other fields can influence their perception regarding the importance of accounting and financial reporting for business growth. Another study conducted by Murniati (2002) states that the last level of education of entrepreneurs such as high school graduates, vocational high school, S1 usually affects the understanding of financial reporting with accounting standards. Therefore,

low levels of formal education tend not to have adequate preparation and use of accounting information compared to employers who have higher formal education. Company calcification or often referred to as company size is a characteristic that can classify whether a company belongs to small, medium or large size. Short and Kessey in Manan (2004) stated that the size of the company can influence the ease of a company in obtaining funding sources, both from internal and external parties. Another requirement in lending is the adequacy of information, especially financial information, which is the reason for the low level of SMEs lending, where banks do not have enough information to conduct credit worthiness assessments (Cziraky, Tisma, and Pizarovic 2005). The importance of financial information for creditors is a condition in credit issuance said by (Baas and Schrooten 2006) that one of the most widely used techniques for lending is financial statement lending which bases its credit for financial information from its debtors. In banking activities it is said that to get a loan from a bank, the customer must apply for credit. Each credit application can be submitted in writing to the bank, regardless of the amount of credit requested. Research from Riskayanto, Sulistiowati (2006) states that credit applications affect the amount of credit received by SMEs. Research from Aufar (2013) states that the latest education of SMEs owners has an influence on the use of accounting information. The growing and the size of the business of SMEs, according to employers, increasingly views whether or not the need for financial reporting is important or not. Perception is a person's starting point in assessing and carrying out things, including accounting and financial reporting (Schiffman and Kanuk, 2010). Duration of business is the length of time the merchant works in the trading business that is currently being lived (Asmie, 2008). Research from Nofianti (2011) states that business size variables affect the amount of credit received. The same research by Pratiwi, Sondhak, and Kalangi (2014) states that the quality of financial statements affects the amount of credit received by SMEs. The standard or reference in the preparation of financial statements must be known or informed in advance to users, such as SAK ETAP, as well as this SEMs, with the information and socialization related to the Accounting Standards for Entities Not Public Accountability (SAK ETAP), the employer will get the clear about these standards. Related to this information, Rudiantoro, Siregar (2011) stated that information and socialization of SAK ETAP had an effect on the understanding of employers on SAK ETAP. In this case the entrepreneur's educational background which is not from the accounting field is difficult or not when understanding the Accounting Standards for Entities Against Public Accountability (SAK ETAP). Research from Rudiantoro, Siregar (2011) states that educational background influences the understanding of employers on SAK ETAP. Research from Rudiantoro (2011) states that recent education has an effect on the understanding of employers on SAK ETAP. The greater the amount of assets a company has, the greater the capital invested in the company, the more sales a company can generate, the higher the money turnover and the greater market capitalization. Company size is a characteristic that can classify whether a company is included in the small, medium, or large size. The size of small, medium and large

businesses does understand about SAK ETAP. So that it can be said that the size of the business influences the understanding of employers on SAK ETAP. Other research on SAK ETAP and SMEs conducted by Gusnardi et al. (2015) said that the prospects for implementing SAK-ETAP in Pekanbaru were still very low, only 13% of respondents knew of SAK-ETAP information and none of the respondents claimed to understand the contents SAK ETAP, this is considered reasonable because SAK-ETAP is still new and very poorly disseminated by related parties resulting in the quality of the financial statements presented are still far from the prevailing financial accounting standards so that the financial statements presented are limited to ordinary books to find out the cash flow and the amount of loss or profit obtained in a certain time.

3. METHODS

3.1. Research Location and Research Time

The location of this study is located in Rokan Hulu Regency. The selection of this location is because the researchers are interested in the success story of Rokan Hulu Regency which results from the expansion of Kampar Regency, the rate of economic development going forward rapidly compared to the parent regency. In addition, he also wants to know how the development of SMEs in Rokan Hulu Regency is related to the quality of their financial statements. This research will be conducted early 2017 until the end of 2017 (1 year).

3.2. Sample Size Determination

The population in this study were SMEs registered in Rokan Hulu Regency in accordance with Depkop Rohul's data in 2016 totaling 815 SMEs consisting of 5 (five) business classifications. The sampling technique with purposive sampling technique. Purposive sampling technique is a technique of determining samples based on clusters when data collection is done. The reason for choosing this sampling technique is to simplify the sampling process. While the sample size is determined based on the Taro Yamane formula. The sample in this study was determined based on the following criteria:

- a. Managed by the owner himself.
- b. Have at least 2 or more employees (including owners).
- c. Has a business life of at least 2 years.
- d. Both the owner and employee are willing to be interviewed.

The subjects in this study included managers, and SMEs owners of Rokan Hulu Regency and some data obtained from the Rokan Hulu Regency Cooperative, Industry and Trade Office. Therefore, the minimum number of samples to be taken in this study is 96 respondents of SMES owners. But in this study, the number of samples to be taken for research was fulfilled into 100 SMEs units.

3.3. Data Types and Sources

Moleong (2008) states that in qualitative research, the main data sources are words and actions, the rest are additional. While from different sources Arikunto (1998) states that what is meant by the data source here is the subject from which the data is obtained. The data sources

used include: a) primary data, which is obtained from the results of in-depth interviews with SMEs managers and owners, and b) Secondary data, ie data obtained from the Rokan Hulu Regency Cooperative, Industry and Trade Office. This research was conducted in Rokan Hulu District, using the SMEs observation unit. It is intended to determine the extent of the quality of financial statements made by SMEs and the financial standards used in making financial statements. The population in this study were all SMEs in Rokan Hulu Regency which numbered 815 SMEs. The sample in this study used the calculation of the Slovin formula which amounted to 100 respondents, namely SMEs in 5 groups of business fields.

3.4. Data collection technique

Data collection techniques in this study are divided into three stages, namely, observation, interviews, and documentation. In observation involves two components, namely the observers are better known as observers, and the object observed is known as Observe (W. Gulo, 2002). In the context of this research observations were made to observe the development of SMEs. The documentation in this study is more on collecting supporting documentation of research data needed (Irawan, 2004). In qualitative research, documentation is useful as the use of data collection techniques with observation and interviews.

3.5. Data Analysis Techniques and Hypothesis Testing Design

Data analysis technique is the process of simplifying data in a form that is easier to read and implement. Data analysis uses an interactive model as proposed by Miles and Huberman (2009) which consists of four main things, namely data collection, data reduction, presentation and conclusion or verification. The process of data analysis is done using several criteria including:

- a. Data collection,
- b. Data reduction,
- c. Data presentation,
- d. Conclusion

The data of this study were analyzed using multiple regression analysis methods with hypothesis testing and descriptive analysis. The form of the multiple regression equation is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

3.6. Data Quality Test

Data quality testing is done to determine the validity and reliability of the instruments used. Test validity The analytical tool used to measure the level of data validity is the correlation coefficient. Reliability test using Cronbach alpha technique, a variable or construct is said to be reliable if it gives the value of Croanbach's alpha > 0.60 (Imam Ghazali, 2009) using the formula:

$$K_r = \left(\frac{k}{k-1} \frac{\sum p \cdot q}{s^2} \right)$$

3.7. Data analysis method

The classic assumption test is done to find out whether the regression model made can be used as a good predictor. The classic assumption test that will be conducted is multicollinearity test, heteroscedasticity test, and normality

test. The normality test is carried out by the Kolmogorov-Smirnov test, taking into account the significance probability of the residual data. Heteroscedasticity test with glacier test, glacier test results which state that heteroscedasticity does not occur if the tcount < t_{table}. For the multicollinearity test, use the cut off value of the tolerance value < 0.10 or the same as the Variance Inflation Factor (VIF) value above 10 (Ghozali, 2011). Hypothesis testing to be carried out is multiple regression analysis, determinant coefficient test, F statistical test, statistical test F independent variable in equation 1 includes: final education, business size, length of business, educational background, while the dependent variable includes perceptions of the importance of accounting and reporting finance.

4. RESULTS AND DISCUSSION

4.1. Results

Respondents in this study were the owners or perpetrators of Micro, Small and Medium Enterprises (SMEs) in Rokan Hulu Regency. The number of respondents is 100 respondents and the following can be seen the characteristics or identity of the respondents in this study. The questionnaire was distributed to 100 SMEs owners/actors in Rokan Hulu District, where the last education of the owners was high school/vocational school (98%) and 2% undergraduate students with almost all non-economic education backgrounds (99%). The size of the business carried out, the majority of small businesses (78%), then micro businesses there are 14% and medium businesses there are 8%. Then the business life is mostly between 5-10 years (97%) and the rest is still less than 2 years. The majority of human resources employed are less than 4 people (66%), followed by those who employ between 5-19 people there are 28%. The majority of assets owned by the business are in the range of 100 million to 499 million rupiah (60%) with the majority of sales per year ranging from 100 million to 499 million rupiah (77%). In terms of capital, all SMEs studied only use around 50-70% of their own capital and all SMEs have applied for loans/loans to the Bank.

4.1.1. Bank Credit

The SMES owners in Rokan Hulu Regency all get information about bank loans from mass media such as newspapers, television, the internet and others. The amount of credit submitted by SMES owners is generally between IDR 50,000,001 – IDR 100,000,000 and for which the amount of credit approved by the bank is also generally between IDR 50,000,001 - Rp.100,000,000. The time period required for credit is received by a majority of 1 year (77%) and the longest up to 2 years is 23%. The collateral value given for the loan is a majority of more than IDR 100,000,000 and the Bank where all credit is submitted is from a State Own Bank (BUMN). The time needed to process credit is quite fast, which is about 2 months and the process of applying for credit is easy even though no party helps during the credit application process.

4.1.2. Quality of Financial Statements

Most SME owners/actors in Rokan Hulu District have not recorded bookkeeping (87%), only 13% of SMEs have recorded bookkeeping. Although they are aware that

financial statements are very important for the growth and development of the company, the constraints of inability and the absence of staff who understand to do the recording and preparation of financial statements make them not do accounting records. In SMEs that have made accounting records, all of them have a special section for accounting records, but have not hired employees specifically for accounting records. They first made a financial report when applying for credit to the Bank and the components presented so far were only in the form of a balance sheet, and even then only done manually and did not use accounting software. Judging from the quality, especially the quality of financial reports for these SMEs, it is still very far from what is expected, as stated above that these SME owners or actors even if they need financial statements only to qualify for them to apply for credit to banks only, from the respondent's statement that the financial statements they requested were made by the credit provider.

4.1.3. SMEs Financial Accounting Standards on Entity Without Public Accountability (SAK ETAP)

These SMEs owners or actors have very little information, especially regarding the preparation of financial statements. The IAI has released a standard for these SMEs around 2014 with the name Financial Accounting Standards - Entity without Public Accountability, abbreviated as SAK ETAP,

even though most SMEs do not know of their existence to follow their standards. After two years of the existence of the SAK ETAP, in 2017 IAI again issued Financial Accounting Standards for SMEs under the name SMEs SAK. Based on the results of the study, the majority of SMEs owners in Rokan Hulu District were not aware of the existence of SMEs accounting standards (97%), only as many as 3% of SMEs were aware of the existence of accounting standards towards SMEs. For this reason, there is a need for socialization from related parties, in connection with the enactment of the SMEs SAK as of January 1, 2018, for example by conducting training for SMEs actors on how they can prepare simple financial reports, referring to the SMEs SAK .

4.1.4. Hypothesis testing

In this section the results of hypothesis testing will be presented to test the effect of education level (X_1), educational background (X_2), business size (X_3), length of business (X_4) and information related to SMEs SAK (X_5) on financial report quality (Y) on SMEs in Rokan Hulu Regency. Because the quality of financial statements can only be measured by the presence or absence of recording financial statements (dummy variables), then the data is processed using logistic regression analysis (logit model). Based on the results of data processing using SPSS 20 software, the results of the estimated logit equation model are obtained as follows.

Table 2. Results of the Logit Model Estimation to Predict the Quality of Financial Statements Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	X1	16,272	40193,005	,000	1	1,000	11663063,280
	X2	2,329	56841,469	,000	1	1,000	10,267
	X3	2,329	,697	11,178	1	,001	10,267
	X4	3,295	1,308	6,349	1	,012	26,982
	X5	18,601	23205,410	,000	1	,999	119746133,713
	Constant	-43,519	46410,864	,000	1	,999	,000

a. Variable(s) entered on step 1: X1, X2, X3, X4, X5.

Sources : SPSS Result (2017).

Through the results of processing as in table 5.1 above, the regression coefficient value (B) can be applied in the form of functional equations with the logit model as follows:

$$g(y) = -43,519 + 16,272 X_1 + 2,329 X_2 + 2,329 X_3 + 3,295 X_4 + 18,601 X_5$$

Through the logit model, the prediction model can be formed as follows:

$$P(y) = \frac{1}{1 + e^{-[-43,519 + 16,272 X_1 + 2,329 X_2 + 2,329 X_3 + 3,295 X_4 + 18,601 X_5]}}$$

In the prediction model, the company is predicted to record financial statements if $P > 0.5$. The positive education level coefficient value indicates that the education of higher SMEs owners tends to record financial statements. Then the positive educational background indicates that the educational background of SMEs owners from the economy tends to record financial statements. Likewise, the size of the company and the duration of the business are positively marked, meaning that larger SMEs and longer business ages tend to record financial statements. Finally, the information coefficient related to SMEs IFRSs is also positive, meaning that SMEs owners who are aware of accounting standards by SMEs tend to record financial statements. After the prediction model is obtained, then testing the model feasibility and testing variables partially to

prove whether the five independent variables have a significant effect on the quality of financial statements.

a. Goodness of Fit

The feasibility test of the model aims to prove whether the empirical model obtained is appropriate or has been able to describe the theoretically constructed models previously. The feasibility test of the model using Hosmer and Lemeshow's Goodness of Fit Test and from the results of data processing obtained the following test results in Table 3 :

Table 3. Model Feasibility Test Results

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	,053	1	,818

Sources : SPSS Result (2017).

In Table 3, it can be seen that the Chi-square value of the Hosmer and Lemeshow test is 0.053 with a significance value of 0.818. Because the synergy value of the Hosmer and Lemeshow test is greater than 0.05, it can be concluded that the empirical model obtained is in accordance with the theoretical model.

b. Overall Test (Simultaneous Test)

Overalls are conducted to test whether the level of education, educational background, business size, duration of business and information related to SMEs IFRSs simultaneously can be used to predict the quality of financial statements. For the purposes of testing, Chi-Square test statistics are used with the statistical hypothesis as follows:

H_0 : all $\beta_i = 0$: Education level, educational background, business size, length of business and information not related to the SMEs IFRSs can be used to predict the quality of financial statements

H_a : There is $\beta_i \neq 0$: Education level, educational background, business size, length of business and information related to SMEs IFRSs can be used to predict the quality of financial statements

The testing criteria used are Reject H_0 at a 5% error rate if X_{count}^2 greater than X_{table}^2

Table 4. Model Suitability Test Results to Predict the Quality of Financial Statements Omnibus Tests of Model Coefficients

	Chi-square	df	Sig.
Step 1	Step	18,061	,003
	Block	18,061	,003
	Model	18,061	,003

Sources : SPSS Result (2017).

In Table 4, it can be seen that the chi-square value obtained from the model match test is 18,061 with a significance value of 0,003. Then from the Chi-square table at the error rate of 5% and the free degree = 5 obtained diperoleh (1-0.05); 4 by 11.07. Because Chi-square count (18,061) is greater than Chi-square table (11.07), then at the 5% error rate it is decided to reject H_0 so H_a is accepted. So based on the results of the test it can be concluded that the five independent variables (education level, educational background, business size, length of business and information related to SMES SAK) simultaneously significantly influence the quality of financial reports in SMEs in Rokan Hulu Regency.

Table 5. Coefficient of Determination Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	59,216 ^a	,165	,307

a. Estimation terminated at iteration number 9 because parameter estimates changed by less than ,001.

Sources : SPSS Result (2017).

The negative value for the R-square found in table 5 can be interpreted as the value of R² in the linear regression. Based on the data in table 5.4, it can be seen the Nagelker to R-square value of 0.307, this value indicates that

simultaneously the education level, educational background, business size, length of business and information related to SMEs SAK is able to explain the quality of financial reports in SMEs in Rokan Regency Upstream by 30.7%. In other words, simultaneously the level of education, education background, business size, duration of business and information related to SMEs SAK has an effect of 30.7% on the quality of financial reports in SMEs in Rokan Hulu Regency.

c. Test the Significance of Each Independent Variable

After it was known that the test results were simultaneously decided to reject H_0 , then a partial test was carried out to test the effect of each independent variable. To test the significance (meaningfulness) of the influence of each independent variable the statistical hypothesis is used as follows:

H_0 : $\beta_i = 0$

H_a : $\beta_i \neq 0$; i = 1,2,3,4,5

In order to test the hypothesis, Wald test statistics are used which have an approach to the Chi-Square distribution with the reject testing criteria H_0 if the value of the wald test statistic is greater than the value χ_{table}^2 , that is equal to 3,841.

d. Influence of Education Levels

It is hypothesized that the level of education has an effect on the quality of financial statements, before carrying out the first test the statistical hypothesis is arranged as follows.

H_0 : $\beta_1 = 0$: Education level not affects on the quality of financial statements

H_a : $\beta_1 \neq 0$: Education level affects on the quality of financial statements

In Table 3, the value of the education variable variable is positive, then the value of the test statistic for the education level variable is 0.00 with a significance value of 1.00. Because the value of Wald test statistic from education level variable is smaller than the Chi-square table (3,841), then at the 5% error rate it is decided to accept H_0 so H_a is rejected. So, how do you do it? SMEs in Rokan Hulu Regency. This is in line with research conducted by Murniati (2002) and AUFAR (2013).

e. Effects of Educational Background

It is hypothesized that the educational background has an influence on the quality of the financial statements, before carrying out the testing the statistical hypothesis is prepared as follows.

H_0 : $\beta_2 = 0$: Educational background not influences on the quality of financial statements

H_a : $\beta_2 \neq 0$: Educational background influences on the quality of financial statements

In Table 3, it can be seen that the coefficient of the educational background variable is positive, then the value of the wald test statistic for the educational background variable is 0.00 with a significance value of 1.00. Because the value of the Wald test statistic from the educational background variable is smaller than the Chi-square table value (3.841), then at the 5% error rate it is decided to

accept H_0 so H_a is rejected. So based on the results of the test it can be concluded that the owner's educational background does not affect the quality of financial statements in SMEs in Rokan Hulu Regency. This result is in line with the research conducted by Aufar (2013) and Siregar (2011).

f. Effect of Business Size

It is hypothesized that the size of the business has an effect on the quality of the financial statements, before carrying out the testing the statistical hypothesis is prepared as follows.

- $H_0 : \beta_3 = 0$: Business size not affects on the quality of financial statements
 $H_a : \beta_3 \neq 0$: Business size affects on the quality of financial statements

In Table 3 it can be seen that the business size variable coefficient value is positive, then the value of the wald test statistic for the business size variable is 11,178 with a significance value of 0,001. Because the value of the wald test statistic for business size variables (11,178) is greater than the Chi-square table value (3,841), then at the 5% error rate it is decided to reject H_0 so H_a is accepted. So based on the results of the test it can be concluded that the size of the business influences the quality of financial statements in SMEs in Rokan Hulu Regency. The results of this study provide empirical evidence that larger size SMEs companies tend to record financial statements. This result is in line with research conducted by Sukirno (1994) and Pinasti (2001).

g. Long Business Influence

It is hypothesized that the duration of the business influences the quality of the financial statements, before carrying out the tests the statistical hypothesis is as follows.

- $H_0 : \beta_4 = 0$: Duration of business not affects on the quality of financial statements
 $H_a : \beta_4 \neq 0$: Duration of business affects on the quality of financial statements

In Table 3 it can be seen that the coefficient value of the old business variable is positive, then the value of the wald test statistic for the old business variable is 6.349 with a significance value of 0.012. Because the value of the wald test statistic for the old business variable (6,349) is greater than the value of the Chi-square table (3,841), then at the 5% error rate it is decided to reject H_0 so that H_a is accepted. So based on the results of the test it can be concluded that the length of business influences the quality of financial reports on SMEs in Rokan Hulu Regency. The results of this study provide empirical evidence that SMEs companies that have been established longer tend to record financial statements. This result is in line with research conducted by Sukirno (1994) and Pinasti (2001).

h. Effect of SMEs IFRSs

It is hypothesized that the information related to SMEs SAK has an effect on the quality of financial statements, before carrying out the first test a statistical hypothesis is prepared as follows.

- $H_0 : \beta_5 = 0$: Information related to SMEs SAK not affects on the quality of financial

statements

- $H_a : \beta_5 \neq 0$: Information related to SMEs SAK affects on the quality of financial statements

In Table 3 it can be seen that the information variable coefficient associated with SMEs IFRS is positive, then the value of the wald test statistic for the information variable related to SMEs IFRS is 0.00 with a significance value of 1.00. Because the value of Wald test statistic for information variables related to SMEs SAK (0.00) is smaller than the value of Chi-square table (3.841), then at the 5% error rate it is decided to accept H_0 so H_a is rejected. So based on the test results it can be concluded that the information related to SMEs IFRSs does not affect the quality of financial reports in SMEs in Rokan Hulu Regency.

5. CONCLUSIONS AND SUGGESTIONS

5.1. Conclusions

1. The prospects and readiness of SMEs in adopting and implementing SAK ETAP, are still very lacking, most SMEs do not yet know and have never compiled financial statements, especially in accordance with previously set standards, namely SAK ETAP, as well as new standards that will be implemented starting in the Month January 2018, for this reason, related parties, namely IAI and Dinas, are in charge of SMEs to find solutions for SMEs in the preparation of financial reports that are highly needed by SMEs so that the difficulties faced by SMEs have been overcome.
2. The owner's education level does not affect the quality of financial reports on SMEs in Rokan Hulu Regency.
3. The owner's educational background does not affect the quality of financial reports on SMEs in Rokan Hulu Regency.
4. The size of the business influences the quality of financial statements in SMEs in Rokan Hulu Regency. The results of this study provide empirical evidence that larger size SMEs companies tend to record financial statements.
5. The duration of the business influences the quality of financial statements in SMEs in Rokan Hulu Regency. The results of this study provide empirical evidence that SMES companies that have been established longer tend to record financial statements.
6. The prospect of implementing SMEs IFRSs is still low, which means that to implement financial report standards for SMEs actors there are many obstacles that must be faced, especially for micro and small SMEs, for them financial reports are not very important, the need for new financial statements is felt if they will apply for a loan, and even then they can ask for help from the lender to make the report as requested by the lender.

5.2. Suggestions

1. For further research, the research sample is focused on one group of SMEs because each group has quite different characteristics.
2. Related parties related to SMEs can create a pole or model for the preparation of financial reports on SMEs that are easily operated by SMEs, starting from the

process of recording all transactions, assets (assets), and liabilities, in simple language and with examples that are directly applicable by SMEs actors.

3. Related agencies can provide examples of SMEs UMKMs that have compiled financial statements properly so that they can motivate SMEs in Rohul District in preparing their financial statements.

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