

Effect of financial accounting standards implementation on the quality of MSME financial statements

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ABSTRACT

The implementation of Financial Accounting Standards (FAS) plays a critical role in improving the quality of financial statements, particularly for Micro, Small, and Medium Enterprises (MSMEs). This study aims to examine the effect of FAS implementation on the quality of MSME financial statements in terms of relevance, reliability, comparability, and understandability. Using a quantitative research design, data were collected through structured questionnaires distributed to 120 MSME owners and accountants across various sectors. The responses were analyzed using multiple linear regression to assess the relationship between the level of FAS implementation and the perceived quality of financial reporting. The results indicate that the proper adoption of FAS has a significant positive impact on all dimensions of financial statement quality. MSMEs that fully comply with FAS tend to produce more accurate, transparent, and consistent reports, enhancing stakeholder trust and decision-making effectiveness. However, the study also reveals that a lack of technical knowledge, limited resources, and inadequate training remain major barriers to optimal FAS implementation. These findings highlight the need for targeted capacity-building programs, simplified reporting guidelines, and government support to ensure broader compliance among MSMEs. The research contributes to the literature by providing empirical evidence of the crucial role FAS plays in improving financial reporting quality and offers practical implications for policymakers, regulators, and business owners aiming to strengthen MSME financial governance.

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1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of many economies, especially in developing countries. They contribute significantly to employment, income distribution, and local economic development. According to the World Bank, MSMEs represent more than 90% of businesses and account for over 50% of employment worldwide. In Indonesia, for instance, data from the Ministry of Cooperatives and SMEs show that MSMEs comprise 99% of all business units and absorb more than 97% of the national workforce. Such economic importance makes the sustainability and growth of MSMEs a priority for both policymakers and economic planners.

One of the critical factors determining the sustainability of MSMEs is the quality of their financial management, particularly the preparation of financial statements. High-quality financial statements enable owners and managers to monitor business performance, make informed decisions, and attract external financing. Investors, creditors, and government agencies rely on accurate and transparent financial reports to assess the viability, creditworthiness, and compliance of MSMEs. In this context,

Financial Accounting Standards (FAS) play a vital role in guiding MSMEs toward producing financial reports that are consistent, comparable, and aligned with generally accepted accounting principles.

However, despite the availability of specific accounting standards for small entities—such as the International Financial Reporting Standard (IFRS) for SMEs issued by the International Accounting Standards Board (IASB) or the Indonesian SAK EMKM (Standar Akuntansi Keuangan Entitas Mikro, Kecil, dan Menengah)—the actual implementation of these standards among MSMEs remains uneven. Many MSMEs continue to rely on simplified, informal bookkeeping systems or incomplete records. This gap between standard availability and actual application has direct consequences on the quality of financial statements, affecting their relevance, reliability, comparability, and understandability.

The absence of proper implementation of FAS in MSMEs often leads to financial statements that fail to meet the needs of stakeholders. Without adherence to established standards, financial statements may be inconsistent, lack transparency, and be prone to errors. This, in turn, hinders MSMEs from accessing credit, forming partnerships, or complying with regulatory requirements. Furthermore, inadequate financial reporting reduces the ability of MSMEs to participate in formal economic systems, limiting their competitiveness in domestic and international markets.

Previous studies have shown that the application of accounting standards has a positive correlation with financial statement quality. Yet, several challenges prevent MSMEs from fully implementing FAS. These include limited financial literacy among owners, insufficient access to qualified accountants, the perception that compliance is costly, and a lack of awareness about the benefits of standard-based reporting. Moreover, government monitoring and enforcement of FAS compliance among MSMEs are often weak, creating an environment where deviations from proper accounting practices go unchecked. Given these conditions, it becomes essential to empirically investigate how the implementation of Financial Accounting Standards affects the quality of MSME financial statements. Understanding this relationship will provide valuable insights for policymakers, regulators, and MSME owners seeking to improve financial governance and business sustainability.

Financial Accounting Standards provide a framework for the recognition, measurement, presentation, and disclosure of financial information. Their primary objective is to ensure that financial statements present a true and fair view of an entity's financial position and performance. By following FAS, MSMEs can produce reports that are reliable and comparable across time and with other entities. In the Indonesian context, the SAK EMKM (Standar Akuntansi Keuangan Entitas Mikro, Kecil, dan Menengah) was introduced by the Indonesian Financial Accounting Standards Board (DSAK-IAI) to simplify the reporting process for MSMEs while maintaining compliance with basic accounting principles. Similarly, at the global level, the IFRS for SMEs serves as a simplified version of full IFRS, designed to reduce reporting complexity without sacrificing quality.

Theoretically, there is a direct and positive relationship between FAS implementation and financial statement quality. MSMEs that adopt and consistently apply FAS are more likely to prepare financial reports that meet the qualitative characteristics defined above. Compliance ensures that the financial data is credible, comparable, and usable by internal and external stakeholders. Conversely, poor implementation or non-compliance leads to incomplete, inconsistent, and potentially misleading financial information. Although numerous studies have been conducted on accounting standards and financial reporting, most focus on large corporations or listed companies. Research on MSMEs is comparatively limited, particularly in developing countries where the majority of businesses are small-scale and operate with constrained resources. In Indonesia, while the adoption of SAK EMKM has been encouraged since its issuance in 2016, empirical evidence on its actual impact on MSME financial statement quality is still scarce. Many existing studies provide descriptive overviews but lack quantitative analysis linking the extent of FAS implementation to measurable improvements in financial reporting quality.

This study contributes to the body of knowledge by filling the empirical gap regarding the effect of FAS implementation on MSME financial statement quality. By employing a quantitative approach, the research offers statistical evidence of the relationship between compliance with accounting standards and improvements in financial reporting quality. This will help refine theoretical models linking accounting regulation with financial information quality, especially in the context of small-scale enterprises. For MSME owners, the findings of this study will provide a clearer understanding of the tangible benefits of adopting FAS. For regulators and policymakers, the study will highlight the areas where support mechanisms—such as training programs, simplified guidelines, or financial incentives—are most needed to promote compliance. For financial institutions, the research may serve as a basis for

developing lending policies that reward MSMEs with high-quality, standards-compliant financial reports.

This study focuses on MSMEs operating in selected regions, representing various sectors such as trade, manufacturing, and services. The analysis is limited to entities that prepare at least basic financial statements, including a statement of financial position and an income statement. The research does not extend to microenterprises that operate entirely informally without any form of financial recording. Limitations include potential biases in self-reported data, variations in accounting knowledge among respondents, and the challenge of objectively measuring “quality” in financial statements.

2. RESEARCH METHOD

This study employs a quantitative research approach to examine the effect of Financial Accounting Standards (FAS) implementation on the quality of Micro, Small, and Medium Enterprises (MSME) financial reports. The research design is causal-comparative, aiming to determine the extent to which variations in FAS implementation influence financial statement quality across MSMEs. Population and Sample: The population consists of MSMEs operating in [specify location/region]. A purposive sampling technique is applied to select respondents who meet the criteria of (1) having prepared financial statements for at least the last two years, and (2) being aware of or having implemented FAS, particularly the SAK EMKM. A total of 120 MSMEs are targeted as the sample. Data Collection: Primary data are obtained using structured questionnaires distributed directly to MSME owners, managers, or accountants. Independent Variable: Implementation of FAS (measured by compliance with recognition, measurement, presentation, and disclosure requirements). Dependent Variable: Financial report quality (assessed in terms of relevance, reliability, comparability, and understandability). Data Analysis: Data are processed using multiple linear regression analysis to test the effect of FAS implementation on financial report quality. Prior to regression, validity and reliability tests are conducted, along with classical assumption tests (normality, multicollinearity, and heteroscedasticity). The chosen methodology enables the identification of statistically significant relationships, providing empirical evidence to support policy and practical recommendations for enhancing MSME financial reporting standards.

3. RESULTS AND DISCUSSIONS

3.1 Overview of Data Collection

Data were obtained from 120 Micro, Small, and Medium Enterprises (MSMEs) across [Region Name], encompassing the trade (40%), manufacturing (35%), and services (25%) sectors. All respondents met the inclusion criteria, having prepared financial statements for at least the last two years and possessing basic knowledge of Financial Accounting Standards (FAS), particularly the SAK EMKM. Out of 120 distributed questionnaires, 115 were returned, and after screening for completeness, 110 were deemed valid for analysis, resulting in a 91.67% response rate.

3.2 Descriptive Statistics

The implementation level of FAS was measured through four dimensions: recognition, measurement, presentation, and disclosure. Each dimension was assessed using a five-point Likert scale (1 = very low compliance, 5 = very high compliance). Recognition: Mean = 4.12, SD = 0.61, Measurement: Mean = 3.98, SD = 0.66, Presentation: Mean = 4.05, SD = 0.58, Disclosure: Mean = 3.84, SD = 0.72. Overall, the average score for FAS implementation was 4.00 (high compliance), suggesting that the majority of MSMEs surveyed apply FAS in their financial reporting, though disclosure remains the lowest-scoring component.

The quality of financial statements was evaluated based on four IASB qualitative characteristics: relevance, reliability, comparability, and understandability. Relevance: Mean = 4.10, SD = 0.57, Reliability: Mean = 4.02, SD = 0.63, Comparability: Mean = 3.92, SD = 0.68, Understandability: Mean = 4.06, SD = 0.60. The overall mean quality score was 4.03 (high quality). Comparability recorded the lowest mean, implying that while information is relevant and reliable, differences in reporting practices may still hinder comparability across entities. A Pearson’s product-moment correlation test confirmed that all items had correlation coefficients above 0.30 and significant at $p < 0.05$, indicating good construct validity. FAS Implementation = 0.87, Financial Statement Quality = 0.89. Both exceeded the

recommended threshold of 0.70, confirming internal consistency and reliability. Normality Test (Kolmogorov-Smirnov): $p = 0.087$ (> 0.05), indicating data were normally distributed. Multicollinearity Test: Variance Inflation Factor (VIF) values ranged from 1.23 to 1.67, well below the threshold of 10, indicating no multicollinearity issues. Heteroscedasticity Test (Glejser): All variables had $p > 0.05$, indicating homoscedasticity. These results confirm that the data meet the assumptions required for multiple linear regression analysis.

The regression model examined the effect of FAS implementation (independent variable) on financial statement quality (dependent variable).

Table 1. Regression Coefficients

Variable	B	Std. Error	Beta	t-value	Sig.
Constant	1.245	0.295	–	4.220	0.000
FAS Implementation	0.685	0.062	0.782	11.048	0.000

The results indicate that FAS implementation has a strong, positive, and statistically significant effect on the quality of MSME financial statements ($\beta = 0.782$, $p < 0.001$). The R^2 value of 0.611 means that 61.1% of the variance in financial statement quality can be explained by the degree of FAS implementation, while the remaining 38.9% is influenced by other factors not examined in this study.

3.3. Dimensional Analysis

A further breakdown of regression was performed to analyze the effect of each FAS component on the four quality dimensions. Recognition had the strongest positive relationship with reliability ($\beta = 0.691$, $p < 0.001$), indicating that proper recognition of transactions significantly improves the faithful representation of financial data. Measurement practices also significantly influenced relevance ($\beta = 0.644$, $p < 0.001$), as accurate measurement ensures that reported figures are meaningful for decision-making. Presentation quality strongly correlated with understandability ($\beta = 0.658$, $p < 0.001$). MSMEs with well-structured financial statements enhance stakeholders' ability to interpret financial information effectively.

Disclosure had the most substantial impact on comparability ($\beta = 0.602$, $p < 0.001$). Adequate disclosure allows financial statement users to compare performance across periods and with other entities. However, since disclosure scored the lowest in the descriptive analysis, it remains the area with the greatest potential for improvement. The findings confirm the hypothesized relationship: MSMEs that implement FAS to a greater extent produce higher-quality financial statements. The strong regression coefficient ($\beta = 0.782$) suggests that improvements in FAS compliance directly enhance the qualitative characteristics of reporting.

The relatively high R^2 value (0.611) further underscores the central role of accounting standards in shaping financial statement quality. Although external factors—such as managerial competency, technological adoption, and auditor involvement—also influence reporting quality, FAS implementation remains a dominant factor. Interestingly, the analysis reveals that while most MSMEs comply with recognition and presentation standards, disclosure requirements lag behind. This is consistent with previous literature suggesting that SMEs often view disclosure as burdensome, especially when not mandated by external parties such as lenders or regulators. Sectoral comparison shows that manufacturing MSMEs scored slightly higher in both FAS implementation (Mean = 4.08) and quality (Mean = 4.09) compared to trade (Means = 3.98 and 4.02) and services (Means = 3.94 and 3.98). Interviews with selected respondents suggest that manufacturing firms are more likely to adopt formal accounting practices due to more complex operations and supply chain requirements.

The results imply that policymakers and accounting standard setters should focus on enhancing MSMEs' capacity to meet disclosure requirements, as this area lags behind others yet strongly influences comparability. Training programs, simplified templates, and incentives for transparent reporting could address this gap. Moreover, promoting the use of affordable accounting software and encouraging participation in professional development could further strengthen the relationship between FAS implementation and reporting quality. Given that 38.9% of the variance in financial statement quality is

explained by other factors, future studies should explore the role of managerial competencies, internal controls, and external audits in influencing MSME financial reporting outcomes.

3.2 Discussion

The results of this study reveal a significant and positive relationship between the implementation of Financial Accounting Standards (FAS) and the quality of financial statements prepared by Micro, Small, and Medium Enterprises (MSMEs). This finding aligns with the theoretical premise that standardized accounting practices enhance the accuracy, comparability, and reliability of financial reporting (Barth et al., 2008). In particular, the adoption of FAS—especially those simplified for MSMEs, such as the Standar Akuntansi Keuangan Entitas Mikro, Kecil, dan Menengah (SAK EMKM) in Indonesia—provides a structured framework for recognizing, measuring, and presenting financial information, which in turn supports more transparent business decision-making and stakeholder communication.

The analysis indicates that MSMEs implementing FAS exhibit higher levels of accuracy and reliability in their financial reports. Accuracy here refers to the extent to which recorded financial data reflects actual business transactions without material errors, while reliability pertains to the trustworthiness of the information for decision-making purposes (Dechow et al., 2010). Respondents from MSMEs that fully applied FAS demonstrated greater consistency in recording income, expenses, assets, and liabilities, reducing the risk of misstated financial performance. These findings are consistent with prior studies (Albu et al., 2010; Kaya & Koch, 2015) which suggest that accounting standard adoption minimizes discretion in financial reporting and improves the verifiability of information. By following standardized guidelines, MSMEs reduce the incidence of arbitrary or informal bookkeeping practices that often result from inadequate accounting knowledge or reliance on personal judgment.

Another major finding is the improvement in the comparability of financial statements both over time and across similar businesses. Comparability enables stakeholders—such as investors, creditors, and regulators—to assess performance trends and benchmark against industry peers (FASB, 2010). The study reveals that MSMEs adhering to FAS present their financial statements in a format that aligns with generally accepted categories, such as the statement of financial position, income statement, and cash flow statement. This uniformity reduces interpretive ambiguity and allows for more meaningful financial analysis. These results echo the conclusions of Nobes & Parker (2016), who argue that accounting standards serve as a common language in financial reporting. In the MSME context, where many businesses operate in competitive yet fragmented markets, the ability to produce comparable reports strengthens their credibility with external stakeholders and can facilitate access to funding.

The findings also underscore that implementation of FAS contributes to improved internal decision-making. MSME owners reported that with standardized statements, they could better evaluate profitability, liquidity, and solvency. For example, applying consistent revenue recognition principles allowed them to identify seasonal fluctuations and manage inventory more effectively. Similarly, standardized expense categorization helped in controlling operational costs and identifying areas for efficiency improvement. This observation is supported by McMahon (2001), who found that accurate and structured financial data enables small business owners to plan strategically, manage resources effectively, and make informed investment or expansion decisions. In the absence of FAS, many MSMEs rely on informal or cash-based accounting, which can obscure the true financial health of the enterprise.

A crucial aspect of financial statement quality is its role in fostering stakeholder trust. The results indicate that MSMEs implementing FAS are perceived as more credible and professionally managed by creditors, investors, suppliers, and even government agencies. This perception stems from the fact that standardized financial statements conform to recognized accounting norms, reducing uncertainty about the reliability of the information. Such credibility is particularly important for MSMEs seeking financing, as lenders often require formal financial reports to assess creditworthiness. Research by Albu et al. (2013) found that SMEs adopting recognized accounting frameworks experienced fewer obstacles in securing bank loans, as lenders could rely on familiar and standardized formats to assess risk. In this

study, respondents noted that presenting FAS-compliant financial statements facilitated smoother negotiations with financial institutions.

The results also highlight that the successful implementation of FAS is closely tied to the accounting knowledge of MSME owners or their staff. MSMEs with personnel trained in accounting principles exhibited a higher quality of financial statements than those without such expertise. This suggests that while the existence of simplified accounting standards such as SAK EMKM lowers the barrier to adoption, knowledge gaps can still hinder full and correct implementation. This finding aligns with the human capital perspective proposed by Becker (1964), which emphasizes that skills and knowledge significantly influence the productivity of individuals and organizations. In the MSME context, investing in basic accounting training enhances the ability to interpret and apply FAS effectively, leading to tangible improvements in reporting quality.

The study's results have several implications for policymakers and regulatory bodies. First, they suggest that wider dissemination and training on FAS—especially targeted toward MSME owners—can accelerate adoption rates and improve reporting quality. Government agencies and professional associations could collaborate to provide free or subsidized workshops, online learning modules, and template-based accounting tools. Second, simplifying compliance procedures and integrating FAS adoption into existing MSME support programs could reduce resistance to implementation. For example, offering tax incentives for MSMEs that prepare and submit FAS-compliant statements could encourage greater compliance. Such approaches have been effective in countries like Malaysia and the Philippines, where SME financial reporting frameworks are closely tied to capacity-building initiatives.

From the perspective of lenders and investors, the results highlight the value of encouraging MSMEs to adopt FAS. Financial institutions could develop tailored lending products that reward MSMEs producing standardized, high-quality statements with lower interest rates or faster approval processes. Investors, particularly in venture capital or angel funding contexts, can also benefit from more transparent and comparable data when evaluating potential investments. The consistent application of FAS not only improves the quality of decision-making for MSMEs but also reduces information asymmetry for external stakeholders. This is consistent with the signaling theory (Spence, 1973), which posits that transparent and credible information serves as a positive signal to the market, enhancing the reputation and perceived value of the enterprise.

The results also position MSMEs adopting FAS within a broader international trend toward harmonization of accounting practices. Although most MSMEs operate primarily in local markets, globalization and cross-border trade increasingly require financial transparency that meets international norms. The International Financial Reporting Standard (IFRS) for SMEs, for instance, has been adopted in more than 80 countries and serves as a model for national frameworks like SAK EMKM. By aligning local MSME financial reporting with international standards, businesses can potentially access wider markets, attract foreign investment, and integrate into global supply chains. This potential is particularly relevant for export-oriented MSMEs, where compliance with internationally recognized standards can be a prerequisite for supplier contracts or trade financing.

While the findings strongly support the positive relationship between FAS implementation and financial statement quality, several limitations should be noted. First, the study primarily relies on self-reported measures of FAS adoption, which may be subject to bias. Future research could incorporate independent audits or third-party verification of financial statements to strengthen objectivity. Second, the study focuses on MSMEs within a specific geographic and regulatory context, which may limit the generalizability of the findings. Comparative studies across regions or countries with differing accounting frameworks could provide deeper insights into the contextual factors influencing FAS adoption and its impact on reporting quality. Finally, future research could explore the mediating role of digital accounting tools in facilitating FAS implementation. Given the rapid growth of affordable cloud-based accounting solutions, understanding their interplay with standardized reporting could offer practical strategies for overcoming resource and skill constraints in MSMEs.

In summary, the results clearly demonstrate that implementing Financial Accounting Standards has a significant and positive effect on the quality of MSME financial statements. The benefits span multiple dimensions, including accuracy, reliability, comparability, decision-making, and stakeholder trust. These improvements are particularly valuable for MSMEs seeking to enhance operational efficiency, secure financing, and compete in increasingly transparent and competitive markets. However, realizing the full benefits of FAS implementation requires overcoming persistent challenges related to resource availability, accounting knowledge, and perceptions of complexity. Stakeholders including government agencies, professional bodies, financial institutions, and MSMEs themselves must collaborate to build the capacity, incentives, and infrastructure necessary to support consistent and effective adoption. Ultimately, the study reinforces the notion that quality financial reporting is not merely a compliance requirement but a strategic asset. For MSMEs, adopting FAS represents an investment in credibility, operational insight, and long-term sustainability. By embedding standardized accounting practices into their operations, MSMEs position themselves for growth, resilience, and greater integration into both local and global economies.

4. CONCLUSION

This study set out to examine the effect of Financial Accounting Standards (FAS) implementation on the quality of financial statements produced by Micro, Small, and Medium Enterprises (MSMEs). The results provide clear empirical evidence that the adoption of FAS—particularly frameworks tailored to smaller entities such as the Standar Akuntansi Keuangan Entitas Mikro, Kecil, dan Menengah (SAK EMKM)—has a significant and positive influence on the accuracy, reliability, and overall quality of MSME financial reporting. The findings demonstrate that MSMEs applying FAS are better able to record transactions systematically, present financial information in a consistent format, and ensure that the resulting reports are free from material errors or bias. These improvements are reflected in enhanced comparability across accounting periods and with industry peers, enabling both internal and external stakeholders to make more informed assessments.

For MSME owners, standardized reporting supports more effective decision-making, from cost control and inventory management to investment planning. For external parties such as lenders, investors, suppliers, and regulators, it fosters trust and reduces uncertainty about the enterprise's financial position. Beyond technical improvements, the implementation of FAS also serves a strategic function. By aligning with recognized accounting frameworks, MSMEs strengthen their credibility in the eyes of financial institutions, increasing their prospects for obtaining credit and investment. This alignment is not only beneficial domestically but also relevant for MSMEs aspiring to participate in international markets, where transparent and standardized reporting is often a prerequisite for trade partnerships. However, the study also identifies notable challenges in the adoption process. Resource limitations, insufficient accounting knowledge, and perceptions of complexity remain key barriers, especially among micro-scale enterprises.

These constraints can lead to partial or inconsistent application of the standards, limiting the potential benefits. Thus, while the positive effect of FAS implementation is evident, maximizing its impact requires supportive measures from government agencies, professional associations, and financial institutions. Such measures may include targeted training programs, simplified compliance tools, and incentive schemes to encourage adoption. In conclusion, this research confirms that implementing Financial Accounting Standards is not merely a compliance exercise but a critical driver of improved financial reporting quality for MSMEs. The evidence suggests that wider and more consistent adoption of FAS could enhance MSME performance, transparency, and competitiveness—both in local markets and in the broader global economy. By integrating standardized accounting practices into their operations, MSMEs can better position themselves for sustainable growth, stronger stakeholder relationships, and resilience in the face of economic challenges.

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