



The Relationship between Capital Financial, Accounting Capability and Micro-, Small- and Medium-Sized Enterprises' (MSMEs) Financial Performance in Indonesia

Winarsih^{*1}, Wiwin Winarti², Zaky Machmuddah³, Emiza Binti Tahar⁴

^{1,2}Dept. of Accounting, Faculty of Economics, Universitas Islam Sultan Agung, Indonesia

³Dept. of Accounting, Faculty of Economics and Business, Universitas Dian Nuswantoro, Indonesia

⁴Fakulti Perakaunan UiTM Cawangan Terengganu, Kampus Dungun, Malaysia

*Corresponding author: winarsih@unissula.ac.id

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ABSTRACT

This study examines the role of financial capital in mediating the relationship between accounting capability and Micro-, Small- and Medium-Sized Enterprises' (MSME) financial performance. Using Yamane formula, the samples are 407 MSMEs in Central Java Province. Data was collected from questionnaires that distributed to and filled by owners of the sample MSME. WarpPLS was used to analysed the research data. This study found that accounting capability and financial capital have a positive influence on financial performance. Financial capital mediates the relationship between accounting capability and financial performance. Thus, this study confirms the importance of accounting capability to increase financial capital and financial performance of MSME.

Hubungan Modal Finansial, Kemampuan Akuntansi dan Kinerja Keuangan Usaha Mikro Kecil dan Menengah (UMKM) di Indonesia

ABSTRAK

Penelitian ini menguji peran modal keuangan dalam memediasi hubungan antara kemampuan akuntansi dan kinerja keuangan UMKM. Dengan menggunakan formula Yamane, sample penelitian berjumlah 407 UMKM yang tersebar di Provinsi Jawa Tengah, Indonesia. Data dikumpulkan melalui kuesioner yang didistribusikan dan diisi oleh pemilik MSME sampels. Data dianalisis dengan menggunakan WarpPLS. Hasil penelitian menunjukkan bahwa kemampuan akuntansi dan modal keuangan berpengaruh positif terhadap kinerja keuangan. Modal keuangan juga memediasi hubungan antara kemampuan akuntansi dan kinerja keuangan. Implikasi dari penelitian ini adalah pentingnya kemampuan akuntansi untuk meningkatkan modal keuangan dan kinerja keuangan UMKM di Indonesia. Hal ini bertujuan untuk meningkatkan kinerja keuangan UMKM menjadi masukan dan pertimbangan bagi pemerintah untuk mengadakan pelatihan bagi pengelola UMKM. Sejalan dengan itu, meningkatkan kemampuan akuntansi sehingga UMKM di Indonesia dapat terus meningkatkan pertumbuhan ekonomi nasional.

1. Introduction

Indonesia is a country located in a strategic geographical area, thus making Indonesia have abundant natural resources. Indonesia is rich in culture and customs that make MSMEs (Micro, Small and Medium Enterprises) in Indonesia keep growing. In 2018 the Ministry of Cooperatives and Small and Medium Enterprises of Indonesia (Ministry of Cooperatives and MSMEs) recorded

the number of MSMEs in Indonesia as many as 64,1 million (Depkop, 2018). MSMEs play a significant role in alleviating poverty, and it is proven that in 2018, 120.5 million people became workers in MSMEs (Depkop, 2018). In the economic sector, MSMEs play a crucial role in increasing GDP (Gross Domestic Product). In the same year, 2018, the GDP recorded from the

MSMEs sector was IDR 8.5 billions (Depkop, 2018). The benefits contributed by MSMEs are very significant in developing countries such as Indonesia. Therefore, MSMEs are believed to encourage economic growth in Indonesia.

According to Falkena et al. (2001), MSMEs also make a significant contribution to socio-political stability. A recent study by Jinjarak et al. (2014) acknowledges MSMEs' significant role in output, employment, and trade in Asian countries, such as Malaysia, Thailand, Philippines, Indonesia, Vietnam, and PRC. The results affirm that MSMEs in these countries contributed 70,55 and 29% to the nations' employment, GDP, and exports. MSMEs are also a key source of employment and economic growth in Indonesia. They contributed to the country's economic resilience during the 2008-2009 financial crisis. According to Berry et al. (2001), MSMEs can better cope with the crisis compared with larger enterprises. However, some MSMEs also experience difficulties during the crisis. MSMEs are considered to respond more quickly and flexibly to environmental conditions or external change frequently than large companies.

The contribution of MSMEs to increase national economic growth must continue to be developed and improved. However, there are several problems faced by MSMEs, among others: lack of capital, difficulty in taking care of license, lack of digital marketing knowledge, and weak financial performance. Rahadi (2016) also identified problems such as minimum connection to capital for business growth; unskilled Indonesian labor so they cannot compete with skilled labor from other ASEAN countries; marketing difficulties; transportation/distribution difficulties; and lack of technology. The minimum connection to capital for business growth impacts the weak financial performance of MSMEs. In February 2020, the performance of MSMEs in Indonesia needed attention and support from the government (Dewan Perwakilan Rakyat Republik Indonesia, 2020). As a result of this, Rapih,

Martono, Riyanto (2015) defined performance as a measure of an organization's success in achieving its mission. Komara, Hartoyo & Andati (2016) described the financial performance as an activity carried out by an organization entity to generate and utilize funds effectively and efficiently. Financial performance can also be interpreted as a measure of an entity's performance. Based on the definition of financial performance, it can be concluded that financial performance is an activity carried out by an entity to achieve the goals that have been set at the beginning. In addition, financial performance can be used to measure the success of an entity in generating profits and the ability to develop by utilizing existing resources. The measurement of financial performance is based on profit. The amount of profit obtained certainly requires the ability to manage the resources owned. Performance measurement is made so that managers do not concern with short-term goals only the better resource management owned by MSMEs, the better financial performance. Thus, MSMEs should manage their resource to gain better financial performance.

In improving the MSMEs' performance, the government provides support in programs such as providing a final income tax discount of 0,5%, a small loan interest of 7%, and providing convenience in making business licensing letters (Open Data Provinsi Jawa Tengah, 2020). In 2020 the government compiled five schemes to help MSMEs actors face the COVID-19 virus pandemic. The five schemes are 1) MSMEs actors who belong to a vulnerable or poor category to get social assistance, 2) Tax incentives for MSMEs actors from 0,5% to 0% for six months, 3) MSMEs actors are given leeway in credit payments such as delaying installment payments, 4) The government provides working capital assistance to MSMEs actors, 5) the government urges local government budgets to be directed to programs related to MSMEs (*Tribunnews*, 2020). Some factors can affect the MSMEs' financial performance, including accounting capability.

Accounting capability is an entity's ability to use the accounting system effectively to realize the entity's expectations (Jantaraturapath, Ussahawanitchakit, Janjarasjit, 2017). Accounting skill helps reduce errors in calculation and increase production activities. Rekarti & Doktoralina (2017) demonstrated that accounting ability plays a vital role in reporting. Accounting ability also plays an essential role in making decisions. By having accounting skills, the information obtained will be more precise, detailed, and accurate. It results in decisions that can maximize existing resources. Thus, accounting capability becomes one of the driving factors to improve financial performance. A study by Chelimo (2014) concerning the effects of bookkeeping on the growth of small and medium enterprises in Kabarnet Town Baringo County, Kenya, shows that many MSMEs actors-maintained sales records books using the double-entry system. The study also indicates that bookkeeping positively affects MSMEs' growth as measured by profitability, increasing business expansion in Karbanet Town. Thus, bookkeeping can be used as a tool for monitoring business transactions in MSMEs.

If MSMEs actors have accounting capability, it will positively impact MSMEs, including obtaining information that will later become a reference for business managers to set prices, develop markets, and make decisions that will affect the progress of MSMEs. Previous researchers have researched the effect of accounting capability on MSMEs' performance, for instance, Rekarti & Doktoralina (2017). They explained that accounting capability affects MSMEs' performance. Imbayani & Endiana (2016) conducted a similar study on implementing accounting information systems on MSMEs' performance. Applying an accounting information system will assist MSMEs actors in carrying out operational activities effectively and efficiently, both in making long-term and short-term policies. It can also encourage MSMEs actors to improve their financial performance. It is in line with

Winarsih, Fuad, & Setyawan (2021a), who stated that the MSMEs sustainability could help the actors to rise from difficulties and failures immediately. It is followed by adaptive digital transformation and financial technology utilization for MSMEs. They do not have access to funding from the banking sector—or are considered unbankable. However, Nurlaela (2015) and Winarsih, Fuad, & Setyawan (2021) found that accounting capability does not affect MSMEs' financial performance. Harahap (2014) also explained that the low level of education of MSME actors results in a low ability to compile financial reports. However, it does not impact MSMEs' performance because the reality shows that the performance is quite good even though the actors have minimal ability to compile financial reports. Meanwhile, Maseko, N. (2011) found that most MSMEs in Zimbabwe do not have completed accounting bookkeeping because of limited accounting knowledge.

No matter how good the accounting capability of MSMEs actors is, they cannot improve their financial performance if they do not have adequate financial capital. It means that financial capital is a mediating variable of the relationship between accounting capability and financial performance. Financial capital is defined as funds available for operational activities (Rapih, Martono, Riyanto, 2015). Meanwhile, Ekowati, Oman, Mafudi (2012) described financial capital as the amount of loan in an entity from the capital is obtained. Sources of financial capital can be from personal capital or loans from external parties. Hence, Fatoki's (2011) research proves that financial capital has a significant positive relationship to the MSMEs' performance.

Similarly, Ekowati, Oman & Mafudi (2012) also found that financial capital positively affects company performance. In line with this research, Rapih, Martono & Riyanto (2015) pointed out that financial capital positively affects the MSMEs' performance. Nonetheless, Syahsudarmi (2018) revealed that financial capital negatively affect

financial performance.

Based on the discussion above, it is known that previous study findings show different results. Therefore, the research question: Does financial capital play a role as a mediating variable in the relationship between accounting capability and financial performance of MSMEs? This study refers to research conducted by Rapih, Martono & Riyanto (2015). The difference with the previous research changing the independent variables, namely HR competence and social capital, with accounting capability variables. Accounting capability can ease MSMEs actors to get financial capital loans from various parties since financial capital is a source of funding for production activities. MSMEs actors will profit from production activities; if profits increase, MSMEs' financial performance will also increase. In addition, the respondents from this study were all MSME actors in Central Java Province. This study aims to provide empirical evidence in the role of financial capital to mediate the relationship between accounting capability and the MSMEs' financial performance.

2. Literature review and hypotheses development

Resource-based theory

This research is based on resource-based theory (RBT). The RBT reviews the resources owned by a business. RBT has two principles regarding the preparation of business plans. The first principle is market orientation, and the second is resource orientation. The resource exists in the entity. It is utilized both financial capital, accounting capability, and even technology adoption to increase the effectiveness and efficiency of activities in an entity. RBT is a theory that explains the performance of an entity where the entity has a competitive advantage that can provide added value for the entity.

Meanwhile, a competitive advantage is owned by an entity that distinguishes it from other entities. Competitive advantage will be created if physical and financial capital can be managed to

affect the entity's performance later. RBT can the ability to increase the effectiveness and efficiency of entities in production activities.

Theoretical Framework

Accounting capability is the ability of business actors to manage finances in the business. Business actors need accounting capability to allocate funds and find sources of funds that will increase activities and profits. According to Wahyudiati & Isroah (2018), a business requires financial management to create an excellent financial performance. Good accounting capability can be seen from the high and low profits that can be traced through the financial statements that have been made (Rakhmawati, 2018). Profit is the total income minus the total costs used. The higher the profit generated, the better the financial performance of an entity.

Accounting capability is needed to carry out bookkeeping correctly and adequately so that business actors can easily monitor the finances. Accounting capability is related to how a business seeks funding sources. Funds or financial capital plays a vital role in financing daily production activities for profit. With accounting capability, a company will find it easier to make financial reports, so it will be easier to meet the basic requirements that external parties have determined in applying for loans. In other words, if business actors have good accounting capability, their financial capital will also increase.

Financial capital is funds owned by an entity to finance production activities. Financial capital is current assets used by the entity to develop its business. It is used as a parameter to measure whether or not financial performance is good. If the growth of financial capital in MSMEs increases, the financial performance in MSMEs will also increase. A study conducted by Ekowati, Oman & Mafudi (2012) stated that if an entity has sufficient financial capital to fulfill production activities, it will improve the MSMEs' financial performance.

Accounting capability owned by business

actors can increase financial capital by adhering to the bank's essential loan requirements. If business actors have adequate financial capital, operational activities will run smoothly. With financial capital, business actors can fulfill raw materials and supporting tools for operational activities. Fulfilling the needs needed in production activities and marketing activities will result in profit. High profits will lead to good financial performance. From this explanation, it can be concluded that financial capital mediates the relationship between accounting capability and financial performance.

MSME financial performance

Financial performance is related to the expenses and income of an entity, such as expenses for the production process, marketing, and employee salaries. Therefore, the entity should be able to manage finances effectively and efficiently. In measuring the financial performance of MSMEs, appropriate indicators are needed. According to Rapih, Martono & Riyanto (2015), indicators that can be used to measure the financial performance of MSMEs are as follows; 1) progress in profits, namely an increase in monthly profits, 2) progress in the number of customers, namely an increase in the number of customers during the accounting period, 3) progress in total sales, namely an increase in monthly sales, 4) progress in total assets, namely an increase in wealth owned annually, and 5) the growth of the workforce every year, namely adding or reducing workers in the place of business. A high level of financial performance means that the entity has carried out operational activities well, and the opportunity for the entity to earn high profits can be achieved. Therefore, the financial performance of MSMEs needs to be measured to see the success of an entity in managing its resources. Besides, the entity can find out to what extent the entity's performance in realizing the goals that have been set before.

The effect of accounting capability on MSMEs' financial performance

Accounting capability is one of the capabilities that encourage the application of accounting and accurate information collection systems. The information will later be processed into financial reports and become the basis for interested parties to make decisions. The decisions that will be taken will affect the use of resources effectively and efficiently. MSMEs' financial performance can be seen from the growth of obtained profits. This advantage cannot be separated from accounting capability because accounting capability helps MSME minimize miscalculations and calculate the selling price.

In this case, the application of resource-based theory is the relationship between accounting capability and the MSMEs' financial performance, where accounting capability is a resource owned by MSMEs. Accounting ability will stimulate an increase in profit. Profit is one of the tools used to assess the success of MSMEs' financial performance.

The results of research conducted by Rekart & Doktoralina (2017), Wahid (2017), and Chelimo (2014) found that accounting capability affects business performance. Accounting capability collects complete and quality information, which later influences MSMEs owners' decisions, optimizing resources owned and improving performance in all aspects of MSMEs. Based on the explanation above, the hypothesis is as follows:

H1: Accounting capability has a positive effect on the MSMEs' financial performance.

The effect of accounting capability on financial capital

One of the capabilities that MSMEs actors must possess is accounting capability because it will manage financial management accounting skills well. When MSMEs actors have accounting capability, they will find it easier to make a financial report as the basic requirements of a bank

institution to apply for a capital loan. In other words, a good accounting capability will ease the MSMEs actors to obtain financial capital from external parties. Therefore, their financial capital can be sufficient to finance operational activities. Thus, the better the accounting capability of MSMEs actors, the higher the financial capital.

Based on resource-based theory, accounting capability is related to financial capital, which are resources owned by an entity. If business actors have good accounting capability, it will be easier to allocate financial capital to increase profits. Thus, high profits will affect good financial performance. Rekart & Doktoralina (2017) determined that accounting capability affects business performance. Accounting capability makes it easier to make financial reports as the basic requirements of financial institutions when applying for a loan. Accordingly, accounting capability can increase the financial capital of MSMEs. From the explanation above, the proposed hypothesis is:

H2: Accounting capability has a positive effect on financial capital.

The effect of financial capital on MSMEs' financial performance

Financial capital is one capital that a business must own sourced from its capital or borrowed capital. Financial capital is funds held by MSMEs actors who play an essential role in production activities to benefit the actors. If the growth of financial capital in MSMEs increases, MSMEs actors will find it easier to meet customer demands. In the end, it will increase productivity and facilitate marketing activities so that profits will increase. Additionally, if the financial capital owned by MSMEs actors increases, the financial performance will also increase.

The relationship between financial capital and MSMEs' financial performance can be based on resource-based theory. Financial capital refers to the capital owned by business actors to purchase supporting production activities. The resource-based theory believes that the entity can optimize

these resources. Suppose it is connected between MSMEs' financial performance and financial capital as a source of financing. In this case, financial capital is owned by MSMEs from various sources, such as loans from banks and non-bank institutions. Suppose the financial capital owned by MSMEs actors increases, the production, marketing, and product development activities can run smoothly. As a result, it can increase profits, whether financial performance can be seen from the high and low profits. High financial capital can be used for activities that generate profits, later leading to good financial performance. The study of Fatoki (2011); Ekowati, Oman, Mafudi (2012); Rapih, Martono, Riyanto (2015) states that financial capital has a positive effect on the performance of MSMEs. Hence the hypothesis is: H3: Financial capital has a positive effect on MSMEs' financial performance.

The role of financial capital in mediating the relationship between accounting capability and financial performance

Accounting capability and financial capital are resources owned by MSMEs actors to improve MSMEs financial performance. Accounting capability can increase financial capital by meeting the basic requirements when applying for loans from external parties. Furthermore, the increased financial capital will ease the MSMEs actors to fulfill other tools and supports to facilitate profitable activities. Thus, if the accounting capability of MSMEs actors is good, it can improve its financial performance if the MSMEs financial capital is adequate.

The relationship between accounting capability and financial capital with the MSMEs' financial performance can be based on resource-based theory. The resource-based theory believes that if an entity can optimize resources with financial performance. MSMEs actors will find it easier to use their resources effectively and efficiently. Ekowati, Oman & Mafudi (2012) indicated the effect of financial capital on financial

performance with a low percentage. According to the explanation, the hypothesis is:

H4: Financial capital mediates the effect of accounting capability on MSMEs' financial performance.

3. Research method

The population in this study comprised MSMEs in Central Java. The number of MSMEs in Central Java in 2020 reached 4.174.210 units consisting of; 3.358 large business units, 354.884 small business units, 39.125 medium business units, and 3.776.843 micro business units (Open Data Provinsi Jawa Tengah, 2020). The sample in this study were MSMEs actors in regencies of Central Java Province, including Demak, Pati, Semarang, and Pemalang. The researchers chose those regencies because there are many potential MSMEs. The sampling technique used in this study is probability sampling with the criteria; MSMEs that have been running for at least two years, MSMEs managers who do bookkeeping, have relationships with banks such as in terms of loans.

According to Sugiyono (2018), the Yamane,

Isaac, and Michael formula used to determine the number of samples as described follows:

$$n = \frac{N}{N(e)^2 + 1}$$

$$n = \frac{4.174.210}{4.174.210(0,05)^2 + 1} = 399,99 \text{ MSMEs}$$

Annotation:

- n : Sample
- N : Population
- e : sig (0,05)

The data used in this study is primary data collected using a questionnaire method because the data obtained is subjective. The collecting data method is a field survey by distributing questionnaires to several potential respondents. They are MSMEs actors in the Demak, Pati, Semarang, and Pemalang, with 400 respondents. In surveying the respondents' answers, researchers used a Likert scale to measure variables.

Table 1. Variable indicator

Num.	Variable	Indicator	Reference
1	MSMEs' Performance (FP)	Financial a. Sales growth b. Capital growth c. Marketing growth d. Profit growth	Rapih, Martono, Riyanto (2015)
2	Accounting Capability (AC)	a. Cost adjustment method b. Focus on target costs.	Jantarajaturapath, Ussahawanitchakit, Janjarasjit (2017)
3	Financial Capital (FC)	a. Utilization of own capital b. Utilization of loan capital c. Profit rate and capital accumulation d. Separate personal expenses from the business.	Rapih, Martono, Riyanto (2015)

The analysis technique is a data analysis method that aims to provide information for researchers. The data must be processed and analyzed first so that it is easy to understand. The data analysis technique was processed using the WarpPLS version 5.0 application. WarpPLS is a variant-based structural equation analysis (SEM) that can simultaneously test the measurement

model as well as test the structural model. This study examined the effect of the financial capital (FC) variable in mediating the relationship between accounting capability (AC) and financial performance (FP) variables, referring to the criteria of Hair et al. (2010). The procedure is first, establish two models. The first model is the direct effect between AC variables on FP. The second

model shows an indirect impact simultaneously between $AC \rightarrow FP$, $AC \rightarrow FC$, and $FC \rightarrow FP$ variables. It is called the PLS-SEM "triangle" model (Kock, 2011). The effect of mediation becomes significant if it meets the following criteria: 1) in the first model, the path coefficients $FC \rightarrow FP$ (lane b) must be significant, 2) in the second model, the path coefficients $AC \rightarrow FC$ (lane a) and $FC \rightarrow FP$ (lane b) must be significant. In the second model, the path coefficient $FC \rightarrow FP$ controls the effect of AC. If the path coefficient $AC \rightarrow FP$ in the second model is not significant, then the form of mediation is complete mediation.

On the other hand, if the second model's $AC \rightarrow FP$ path coefficient is significant, then the state of mediation is partial mediation. Accordingly, it must meet the two criteria that have been mentioned. Generally, the lower AC's effect (path coefficient c) on the second model, the more perfect the mediation form, after meeting the two criteria mentioned (Kock, 2011). The estimation results from the model indicate that the goodness of fit criteria have been met if the ARS and APC values are statistically significant and AVIF is less than 5 (Kock, 2011).

4. Result and discussion

Result

This research was conducted in Central Java, primarily in Demak, Semarang, Pati, and Pemalang, taking direct and indirect data from MSMEs as the research object. The questionnaire data distributed were 500 questionnaires, and 450 questionnaires were returned. A total of 43

questionnaires were not processed because they did not match the predetermined sample criteria, so that 407 questionnaires could be processed.

MSMEs aged 3-5 years are 206 respondents (46%). It shows that the age of MSMEs in Central Java is still early. Meanwhile, 407 MSMEs actors have made simple records such as procuring proof of transactions and have submitted loans to financial institutions. The average monthly income earned by MSMEs is in the range of more than IDR 3,000,000 and more diminutive than IDR 6,000,000 per month, which is 168 (41.3%). These data indicate that MSMEs are currently developing.

The data in tables 3 and 4 show that Cronbach's alpha has a value greater than 0.60. MSMEs' financial performance variable has a Cronbach alpha value of $0.763 > 0.60$, the accounting capability variable has a Cronbach alpha of $0.621 > 0.60$ and the financial capital variable has a Cronbach alpha value of $0.671 > 0.60$. In conclusion, all the variables of this study are reliable or reliable. In addition, in the validity test, all variables explicate the correlation coefficient r-count is greater than r table. It means that all research variables are valid.

Table 2. Descriptive statistics on respondents/MSME

Num.	Description	Amount	Percentage
1	MSMEs' aged 3-5 years	206	46
2	Financial institutions access	407	90.4
3	The average monthly income (IDR 3,000,000-IDR 6,000,000)	168	41.3

Table 3. Reliability test

Num	Variable	CronbachAlpha	Annotation
1	FP	0.763	Reliable
2	AC	0.621	Reliable
3	FC	0.671	Reliable

Table 4. Validity test

Num	Variable	Statement	r-count	r-table	Annotation
1	FP	1	0.567	0.098	Valid
		2	0.590	0.098	Valid
		3	0.576	0.098	Valid
		4	0.394	0.098	Valid
		5	0.726	0.098	Valid
		6	0.650	0.098	Valid
		7	0.677	0.098	Valid
		8	0.559	0.098	Valid
		9	0.563	0.098	Valid
2	AC	1	0.707	0.098	Valid
		2	0.629	0.098	Valid
		3	0.709	0.098	Valid
		4	0.688	0.098	Valid
3	FC	1	0.489	0.098	Valid
		2	0.445	0.098	Valid
		3	0.623	0.098	Valid
		4	0.661	0.098	Valid
		5	0.610	0.098	Valid
		6	0.617	0.098	Valid
		7	0.644	0.098	Valid

The effect of accounting capability on MSMEs' financial performance

Based on the significance (sig) of the accounting capability variable of <0.001 and the value of b (path coefficient) with a positive value of $0.410 < \text{probability } 0.05$ means that there is a significant positive effect of accounting capability on the MSMEs' financial performance. In summary, the first hypothesis, which states that accounting capability positively affects the MSMEs' financial performance, is accepted.

Accounting capability is one of the capabilities that support the application of accurate accounting and information collection systems. The collected information will be processed into a financial report, which becomes the basis for interested parties to make decisions. The MSMEs' financial performance can be seen from the growth in profits. This advantage cannot be separated from the role of accounting capability because it helps minimize miscalculations. Besides that, MSMEs actors can also calculate the selling price of a product. This accounting capability will later

encourage an increase in profit as one of the benchmarks for the success of financial performance. The results of this study are supported by resource-based theory, namely the relationship between accounting capability on MSMEs' financial performance, where accounting capability is a resource owned by MSMEs. Accounting ability will stimulate an increase in profit as one of the tools to assess the success of financial performance.

The results of this study are in line with research that has been carried out by Rekart & Doktoralina (2017), which states that accounting capability affects business performance. It means that if the accounting capability of MSMEs actors is improved, their financial performance will also increase.

The effect of accounting capability on financial capital

Based on the significance (sig) of the accounting capability variable of $<0,001$ and the value of b (path coefficient), with a positive value

of $0,488 < \text{probability } 0,05$ means that there is a significant positive effect of accounting capability on financial capital. The second hypothesis, which states that accounting capability positively affects financial capital, is accepted.

One of the capabilities that MSMEs actors must possess is accounting capability because it will manage financial management accounting skills well. When MSMEs actors have accounting capability, they will find it easier to make a financial report as the basic requirements of a bank institution to apply for a capital loan. The results of this study are supported by resource-based theory, that accounting capability has a relationship with financial capital, both of which are resources that an entity must own. If business actors have good accounting capability, it will ease them to allocate financial capital to activities that can increase profits. High profits will affect good financial performance. Therefore, if MSMEs actors have good accounting skills, it will raise the financial capital owned by MSMEs actors.

The results of this study are like the findings of Rekart & Doktoralina (2017). They suggested that accounting capability affects business performance. Thus, MSMEs will further increase their financial capital.

The effect of financial capital on MSMEs' financial performance

Based on the significance (sig) of the financial capital variable of <0.001 and the value of b (path coefficient), it has a positive value of $0.493 < \text{probability } 0.05$. In other words, there is a significant positive effect of financial capital on MSMEs' financial performance. Hence, the third hypothesis states that financial capital positively affects MSMEs' financial performance is accepted.

Financial capital is one capital that a business must own sourced from its capital or borrowed capital. Financial capital is funds held by MSMEs actors who play an essential role in production activities to benefit the actors. Based on resource-based theory, financial capital refers to the capital owned by business actors to purchase supporting

production activities. The outcomes of this study are supported by resource-based theory. Suppose it is connected between MSMEs' financial performance and financial capital as a source of financing. In this case, MSMEs own financial capital from various sources such as loans from banks and non-bank institutions. Suppose the financial capital owned by MSMEs actors increases, the production, marketing, and product development activities can run smoothly. As a result, it can increase profits, whether financial performance can be seen from the high and low profits. High financial capital can be used for activities that generate profits, later leading to good financial performance. Based on the explanation, it can be concluded that if the financial capital owned by MSMEs increases, the MSMEs' financial performance also increases.

Rapiah, Martono & Riyanto (2015) and Ekowati, Oman, Mafudi (2012) demonstrated similar findings to this study. They found that financial capital positively affects MSMEs' financial performance to carry out profitable activities that affect good financial performance.

The role of financial capital in mediating the relationship between accounting capability and financial performance

The results of the mediation test show that the direct effect coefficient of AC on FP (line c) in the model (1) is $0,410$, which means significant. The estimation result of model (2) shows that the indirect effect coefficient of AC on FP decreased to $0,181$; however, it remains significant. It shows the form of partial mediation, or in other words, FC partially mediates the effect of AC on FP. This partial mediation form shows that FC is not the only mediating AC relationship to FP. The results in Table 4 show that the requirements for mediation testing have been fulfilled. The path coefficients a, b, and c are significant, with each coefficient value of $0,181$; $0,498$; and $0,488$.

Financial capital and accounting capability are resources owned by MSMEs actors to improve MSMEs' financial performance. Accounting

capability can increase financial capital by meeting the basic requirements when applying for loans from external parties. Furthermore, increased financial capital will enable the MSMEs actors to fulfill other tools and supports to facilitate profitable activities. The relationship between accounting capability and financial capital with the MSMEs' financial performance can be based on

resource-based theory. The resource-based theory believes that if the entity can optimize resources with financial performance, MSMEs actors will find it easier to use their resources effectively and efficiently. Thus, the accounting capability of MSMEs actors can improve MSMEs' financial performance if the MSMEs' financial capital is adequate.

Table 5. Hypothesis test

Path	Direct Effect		Indirect Effect		Remark
	Coefficient	p-value	Coefficient	p-value	
AC → FC			0.181	<0.001	H ₁ is accepted
FC → FP			0.493	<0.001	H ₂ is accepted
AC → FP	0.410	<0.001	0.488	<0.001	H ₃ is accepted
Fit Model Indicator					
Average path coefficient (APC)	0.410	<0.001	0.387	<0.001	
Average R-square (ARS)	0.168	<0.001	0.298	<0.001	
Average variance inflation factor (AVIF)	1.000		1.277		

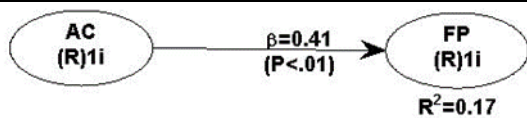


Figure 1. Model 1: Mediation Test (Direct Effect AC→FP)

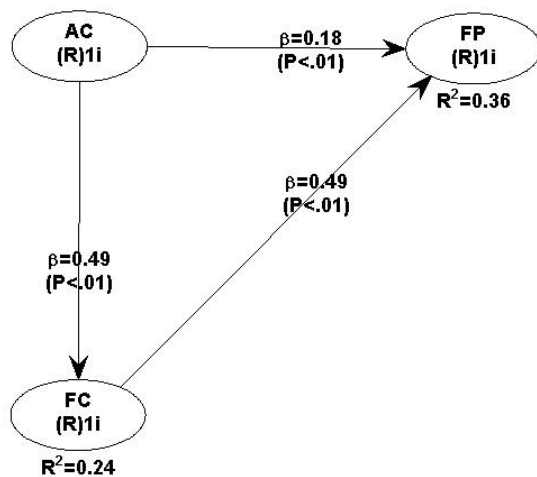


Figure 2. Model 2: mediation test (Indirect Effect of AC→FC→FP)

5. Conclusion

Based on the research results, it can be concluded that accounting capability and financial capital positively affect financial performance.

Financial capital also mediates the relationship between accounting capability and financial performance. The limitation of this research is the low value of the Average R-square (ARS) which is 29,8%. Thus, further research is suggested to add independent variables such as human resources, social capital, education level, or others to create different models and results. The implication of this research is the importance of accounting capability to increase financial capital to improve the financial performance of MSMEs. Suggestion and consideration for the government to conduct training for MSMEs managers in improving accounting skills so that MSMEs in Indonesia can continue to increase national economic growth.

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