

The Importance of Financial Reports For UMKM Actors in Jepara Regency

Devi Widiyanti^{1*}, Siti Aliyah², and Subadriyah³

^{1, 2, 3} Universitas Islam Nahdlatul Ulama Jepara

*Corresponding Author – Email Address : devideli53@gmail.com

ABSTRACT

This study aims to see how micro, small and medium-sized enterprises (MSMEs) in Jepara Regency understand the importance of financial statements. Access to financing, strategic decision-making, and business management all rely on financial statements. The research method used was qualitative and descriptive, and in-depth interviews were conducted with five business owners. The results showed that although many MSMEs realized the importance of financial statements, they had not formally recorded them. Factors such as lack of knowledge, lack of time, and the belief that financial statements are only required by large companies still exist. It is hoped that the support of the government and relevant agencies through training will improve the understanding and use of financial reporting among small and medium enterprises (MSMEs).

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are crucial to Indonesia's economy, particularly in Jepara Regency, where they significantly contribute to GDP, employment, and poverty alleviation. However, these enterprises face substantial challenges in financial management, largely due to the perception that accounting information and financial reporting are complex and costly (Peraturan Menteri Koperasi Dan Usaha Kecil Dan Menengah Republik Indonesia Nomor 1 Tahun 2021). This misunderstanding is compounded by the lack of clear separation between personal and business assets, making financial report preparation even more daunting. Understanding the importance of financial reports is vital for MSMEs to enhance their performance, access financing, and improve decision-making (Putra et al., 2023). The core issue revolves around the insufficient understanding and implementation of financial reporting among MSMEs in Jepara, leading to inadequate financial management practices and limiting growth potential. Thus, this research seeks to explore several questions: To what extent do MSMEs in Jepara recognize the importance of annual financial reports? How do they perceive the complexity and costs associated with preparing these reports? What impact do financial reports have on their business decision-making? The challenges faced by MSMEs are multi-faceted, encompassing perceptions of complexity, cost concerns, asset management issues, and lingering knowledge gaps despite prior research. Therefore, the primary objective of this study is to assess the understanding of MSMEs in Jepara regarding the importance of financial reports and their implications for decision-making (Santiago & Estiningrum, 2021). Specific

goals include evaluating the current level of knowledge and perceptions about financial reporting, identifying barriers to effective preparation and utilization of financial reports, and providing recommendations for improving financial literacy and reporting practices among MSMEs (Swandini, 2023). This structured approach aims to bridge existing gaps and promote better financial management in Jepara Regency.

2. Literature Review

The concept of "pemaknaan," as defined by the Great Dictionary of the Indonesian Language (KBBI, 2024), refers to "meaning" and encompasses notions of understanding and interpretation. However, this understanding is often limited to empirical contexts, whereas extrapolation allows for the exploration of ethical and transcendental dimensions (Hidayat, 2008).

In the context of Micro, Small, and Medium Enterprises (MSMEs), despite their significance to the national economy, they continue to encounter numerous challenges, both internal and external, such as marketing, production, human resources, design and technology, capital, and the overall business climate. A critical issue is their lack of comprehension regarding applicable accounting standards, which complicates the preparation of financial statements and access to capital (Sandi, 2023).

To address these challenges, hermeneutics theory offers a valuable framework for financial reporting. Derived from the name of the Greek god Hermes, who is known for delivering messages, hermeneutics involves the interpretation of texts and data to extract deeper meanings. It emphasizes the importance of context in enhancing understanding, enabling interpretations that extend beyond mere technical details to encompass broader historical and philosophical insights (Kamayanti & Mulawarman, 2020). By applying hermeneutic methods to financial reporting, MSMEs can improve their understanding of financial data, facilitating better decision-making and ultimately enhancing their operational effectiveness. This grand theory underscores the necessity of interpreting financial information in a holistic manner, integrating both empirical data and broader ethical considerations to foster a more profound comprehension among MSMEs (Westa Purba, 2018).

3. Method, Data, and Analysis

This research was conducted using a descriptive qualitative approach. By using the approach and reviewing the literature and interviewing UMKM actors involved in the research. The data taken in this study are primary and additional data from Small and Medium Industry Data Based on OSS in Jepara Regency in 2023 used in this study. As well as data originating from direct researchers, namely informants (UMKM actors) and objects studied, as well as from the results of interviews with UMKM actors.

This study took samples from the top 5 types of businesses from 31 types of MSMEs in Jepara Regency, including the Food Industry, Beverage Industry, Textile Industry, Ready-to-wear Industry, and Furniture Industry. In this study, both documentation and interview techniques will be used. Interviews will be used to collect information about the meaning of financial reports for MSME actors in Jepara Regency. While documentation will be used to collect information about the location of the study, existing market potential, the number of small and medium enterprises (MSMEs) involved in the study. The data to be processed in this case includes descriptive data, including words and sentences, personal documents, field notes, statements from research informants, documents, and others.

4. Results and Discussion

Results

Understanding Financial Reports

Definition of financial reports

Accounting is a process consisting of biased steps that produce useful information to consider various things and make decisions for its users. This means that accounting is very helpful for business progress. Some of the participants only know a little about financial reports due to their educational background. So it is natural when these participants only know a little about financial reports as expressed by I Mrs. Munawaroh, the owner of the E s T eh I bukota business when asked about her understanding of financial reports for this ongoing business, he revealed that

"In my opinion, my financial report is income, if it's from the iced tea version, right? If we take it from the iced tea version, how much is the income for one day? Then how much is it per week? How much is it in one month?"

Similarly, as expressed by Mrs. Munawaroh, the owner of the I s Tea business in the capital, Mr. Imam, as the owner of the IM_ŠTORE business, expressed his opinion regarding his understanding of financial reports, he said that :

"Eee, yes, what I know about financial reports is only limited to recording incoming and outgoing money, so that I know how much the goods I will sell cost and how much profit I will get later."

Almost the same as what was expressed by Mr. Imam. Mrs. Halimah as the owner of the MN Jepara business, various snacks & cakes Larut rasa and honey, said that

"Its use is to find out the rise and fall of turnover and to find out the development, eeee, of our business"

There is also Mr. Doni, the owner of the Omah Lurik Jepara business, who said that

"Generally, it's like so and so, the content is reports about prices of raw materials, then selling prices, generally it's the same as that, only in so and so keeps making profit and loss, if it's like that, it looks like the balance sheet is rarely used, the point is how much capital is there, how much will it be sold for"

In contrast to what was expressed by Ms. Lina as the owner of the Karya Logam Furniture business, according to Ms. Lina's opinion regarding her understanding of financial reports, she stated that

" Eee, in my opinion, what is a financial report? It is a record in the form of a document, which presents information about the company's financial position, for example from the profit and loss report, cash flow report, etc.

Purpose of financial reports

For the purpose of this financial report, MSME business actors have their own opinions, including Mas I Mam as the owner of the IM_ŠTORE business, who has an opinion regarding the purpose of the financial report. He stated that

"Well, as far as I know, financial reports are used to find out how much profit I will get when I sell my goods."

Apart from Mr. I Mam as the owner of the IM_ŠTORE business, Mr. Doni as the owner of the Omah Lurik Jepara business also expressed his opinion regarding the purpose of financial reports, he said that

“Eh, the point is, it’s about profit and loss..... The important thing is the profit, so that we know how much profit there is. Sometimes it seems like the selling price is high but there is no profit.”

In terms of financial reports, Mr. Doni , as the owner of the Omah Lurik Jepara business, first learned about financial reports from training held by the department. He said that

"yes, I used to study, only I for many people used the application for the first time, at first it was a shop book, only I was no longer use it, then the last zinc is from Jepara ready, application ready, and Iku training from services"

Ms. Lina, as the owner of the Karya Logam Furniture business, explained the purpose of financial reports according to her. She said that

"If the purpose of financial reports, is it to prepare financial reports? Eeee, I think this financial report can get transparency from sales and support accountability. In decision making, for example, I want to buy a tool, so I can look at the financial report first to see whether I can buy this tool or not."

Related to understanding financial reports, Mbak Lina as the owner of the Karya Logam Furniture business also explained about the first time Mbak Lina learned about financial reports , she said that

"I happen to be majoring in accounting, so I just found out how important it is to prepare financial reports during this course."

In this case, the background is not a guarantee, although the backgrounds are different in this study, the level of knowledge of the participants regarding this financial report is quite understandable and can explain well. The level of knowledge regarding the financial report owned by the participants in this study can be seen in the table below.

Table 1. Understanding of financial reports of MSME actors in Jepara Regency

No.	Level of Understanding	Amount
1	Understand	1
2	Quite Understand	4
3	Not really understand	0
4	Do not understand	0
Amount		5

The results of the analysis conducted on the knowledge of financial reports held by Micro, Small and Medium Enterprises (MSMEs) in Jepara Regency, which consists of five businesses selected randomly from three groups, show that the knowledge held by these MSMEs

The groups among their knowledge include, the first level is a high level of knowledge, because the business actors studied have recorded financial reports in accordance with existing standards, these business actors record financial reports using a system in recording their financial reports. The second level is a moderate level of knowledge, because the business actors studied have bookkeeping but are still in simple recording and using their own format and are not in accordance with existing standards, the recording carried out is only about income, expenses and gross profit obtained. The third level is a low level of knowledge, because the business actors studied did not record or do any bookkeeping at all, but the business owners only use notes to calculate their income.

Use of Financial Reports

Regarding knowledge in terms of recording financial reports owned by the interviewed participants, not a few do bookkeeping even though it is simple, however, not a few of the interviewed

participants know the basic theory but do not record financial reports for their business. So in this study, knowledge alone does not guarantee the application of the financial report, when asked about the reporting, Mr. Doni as the owner of the Omah lurik Jepara business revealed that:

" Meanwhile, this does not attract tourists, yes, previously in the morning, only when there was a need, but now they have to guess the results themselves."

When asked about the recording or bookkeeping process in the past, he said that :

"Oh raw materials, then selling prices, then eee funds coming in and out e"

Similarly, M as I mam as the owner of the IM_ \$STORE business when asked about the reason he did not make a financial report for his business, he said that:

"For now, I haven't recorded anything, so I combine the money from my sales for my daily needs, well, my business is still considered a small business, so I don't think it's necessary to prepare a financial report."

All the basics in bookkeeping by these UMKM actors are different in terms of bookkeeping. Actually, all have their own bookkeeping but it is not yet in accordance with the standards. This was also revealed by other business actors such as Mrs. Halimah as the owner of the MN Jepara business, various snacks & cakes Larut rasa and honey, she said that:

"Hmm, I record my income every day, so every day like this, it's starting to be routine, two thousand five, two thousand two five, because I need extraordinary records."

In line with Mrs. Halimah, Mrs. Munawaroh , the owner of the Ibukota Ice Tea business, when asked about the bookkeeping process for her business, she said that :

"For me, this is my personal iced tea, maybe how much is my iced tea today, for AAA, the price will be different, later I won't differentiate how much this costs, later for this ice, how much is the profit, later we will add it up"

However, among the business actors who have participated in this study, there is Ms. Lina as the owner of the Karya Logam Furniture business who when asked about the process of recording financial report bookkeeping, she explained in detail how the recording process she carried out, she revealed that:

"Yes, in running this business, I have used financial reports from the beginning and now I initially used Excel as usual, then I switched to using the system."

In addition, when Ms. Lina, the owner of the Karya Logam Furniture business, was asked about financial reports helping in managing the business, she said:

"Yes, it really helps me because this financial report makes my finances manageable and controlled, so I know when to buy this tool, for example."

Based on the results of the interview analysis with several participants mentioned above, the presentation of their business can be seen in the following table:

Table 2. Use of Financial Reports

No.	Information	Presentation
1	Complete	20%
2	Simple	40%
3	There isn't any	40%

Based on the table above, twenty percent (20%) use complete financial report recording, forty percent (40%) use simple recording, and forty percent (40%) do not do bookkeeping at all, only using notes as a basis for calculations or calculating them themselves through estimates.

Meaning and Perception

As for the meaning and perception of the financial report itself for MSME actors in Jepara Regency regarding how important this financial report is to help the success of the business, the obstacles faced in preparing financial reports, or even the benefits obtained from recording financial reports for MSME actors' businesses, in this case the participants who were asked about this, namely Mr. Doni as the owner of the Omah Lurik Jepara business, he said that:

"Yes, it is important, but sometimes our MSMEs are lazy, every week, even though they are really busy, they are busy, but sometimes they don't have time."

When asked about his own obstacles, he said that:

"It's not really there, I'm just lazy, I'm just doing too much."

Similarly, Mrs. Halimah, the owner of the MN Jepara business, which sells various Larut rasa and honey snacks & cakes, said that:

"It is very important, because the interests are the same, miss, we want to borrow money and also need a summary, we want to collaborate with PLN, our products are bought, our products are assisted, our products can enter outside the region, outside the province also need a summary too."

And when Mrs. Halimah, the owner of the MN Jepara business selling various snacks & Larut rasa and honey cakes, was asked about the obstacles she faced, she said that:

"My problem, frankly, is that sometimes I summarize it and write it in a strange way."

In contrast to the response of M Bak Lina as the owner of Karya Logam Furniture when asked, she said that:

"It is very important for me, because this report can provide a clear picture of the company's finances."

In this case, when M Bak Lina, the owner of Karya Logam Furniture, was asked about the obstacles she experienced while recording financial reports, she revealed that:

"Of course there are obstacles, for example, if the input data is not entered carefully, it can be wrong all the way to the end."

Then when M Bak Lina, the owner of Karya Logam Furniture, was asked about the benefits of financial reports, she said that:

"Yes, it is very beneficial, because this business is very well organized in terms of finances."

In fact, most of the MSME actors interviewed by this researcher consider that financial reports are important and need bookkeeping, but there are some of them whose knowledge is only limited to cash inflow and outflow, so they do not make proper bookkeeping reports. As expressed by Mr. Doni, Mrs. Halimah, Mrs. Munawaroh.

Implications in Business Context

This financial report can affect the business strategy of UMKM actors in Jepara Regency itself, for example in terms of product development management, then in terms of marketing, or cost management. In addition, financial reports also help increase the credibility of the participants' businesses, perhaps in terms of loan applications or collaborating with other parties. And the impact obtained in recording financial report bookkeeping, as expressed by Ms. Lina as the owner of the Karya Logam Furniture business, she said that:

"For that matter, what does the financial report help my business with? In planning future strategies, and what can it do? Decision making is more precise."

There is also Ms. Lina as the owner of Karya Logam Furniture business when asked about the impact of recording financial reports, she said that:

"The impact? Um, the financial report itself is what provides an understanding of business finances, including what? Assets, debts, so I can plan a better strategy for the future."

Support and Hope

This financial report is not just about documents and numbers, but also a reflection of the financial health of a business. Apart from education, in Jepara Regency itself, support from various government parties, financial institutions and also this community is very much needed to increase awareness and knowledge of MSME actors in Jepara Regency. As stated by Mr. Doni as the owner of Omah Lurik Jepara regarding what training has been received about recording financial reports from the government and related institutions, he said that:

"Yes, the first book of stalls in 2022 from the Central Java Cooperative Service in Kudus, continues with Siapik being independent, then our own UMKM in the Jepara community will also do training on the Siapik application from Bank Indonesia, the original is actually easier, it's just that I'm lazy"

Similarly, Mrs. Halimah as the owner of the MN Jepara business, various Larut rasa and honey snacks & cakes, what training has she received and she said that:

"At first I didn't want to, I mean why bother, but with us being trained, there was training maybe from the Department of Industry and Trade, from the UMKM office, manpower, eh, from us being sent to Balotkom, we were sent to what cooperative? Central Java level too, and we were sent earlier for training at UNISNU too, thank God UNISNU also helped a lot and really increased knowledge and insight."

There is also Ms. Lina as the owner of the Karya Logam Furniture business, she revealed that regarding gaining knowledge about financial reports, she revealed that:

"I studied accounting, so from the beginning until now I still get guidance or what? Lessons about financial reports, so yes, it has been very influential until now, because I do financial records and sometimes still need guidance."

However, this is different from what was expressed by Mr. Imam as the owner of the IM_STORE business, he said that:

"Wow, I have already received knowledge related to financial reports, but I only understand a little bit, especially since I got it when I was still in high school."

In addition, the hopes of the MSMEs for the related parties, as expressed by Mr. Doni as the owner of the Omah Lurik Jepara business when asked about his hopes for helping MSMEs related to financial report bookkeeping, he said that:

"Oh, encourage MSMEs more in terms of finance, okay? Just provide training about what? The latest applications, it's rare for MSMEs to get training like that, because the financial training yesterday was not from the government, it was done by the community itself."

Something similar was also expressed by Ms. Lina, the owner of the Karya Logam Furniture business, that:

"Wow, I also want the government or institutions to provide training, especially for MSMEs, because they definitely have minimal knowledge about financial reports, so they can develop more because they know their financial reports."

This is different from what was expressed by Mrs. Halimah as the owner of the MN Jepara business, which sells various Larut rasa and honey snacks & cakes, she said that:

"Well, for the coming year, I hope that there will be a solution to help market my products, especially in the online sector."

In line with other participants, Mas Imam as the owner of the IM_STORE business expressed his hopes for the future that:

"Hmm, I really want the government to provide training, this training is aimed at sellers, so that they, like me, understand better and can practice running their business."

Reflections and Future Hopes

Future plans for MSMEs if they have not yet recorded

As expressed by Mas Imam as the owner of the IM_STORE business regarding plans to carry out financial report bookkeeping, he said that:

"ooo, if there is a plan to make a financial report, then there is definitely one, but for now I haven't, because my sales are still unstable, well if there is a definite intention, then there is definitely one, so that my finances are more organized."

And the UMKMs that have done bookkeeping see the role of this financial report for the development of the participants' businesses . As expressed by Ms. Lina as the owner of Karya Logam Furniture business that:

"Eee what is it? Maybe the role of this financial report is very important for people who have businesses, because it will help them organize their finances better, maybe that's it."

Discussion

The meaning of Micro, Small and Medium Enterprises (MSMEs) regarding the importance of financial reports

Each of these business actors has a different interpretation of financial reports, this has been shown in the results of interviews with informants. The data above explains that the MN Jepara business, various snacks & cakes Larut rasa and honey, Es Teh Ibukota, the level of understanding of financial reports is already understood, but in simple bookkeeping records only uses the reporting method on the UMKM itself. Omah Lurik Jepara and IM_STORE businesses have a level of understanding of financial reports. They already understand, but do not record bookkeeping and do not apply SAK EMKM to their business. Karya Logam Furniture has a level of understanding of financial reports. They already understand and have recorded bookkeeping.

In understanding financial reports, interpretation of financial reports. In the interview results it can be seen where at this level it is expected that the informants who have been interviewed are able to define, translate and also interpret accounts or forms of financial reports.

In this study, 5 informants who were interviewed were able to explain and define and in terms of providing a description in accordance with the informants' knowledge of financial reports that had been submitted in the researcher's questions well, and these informants considered that recording financial reports was important for business continuity. As stated by Mrs. Halimah, the owner of the MN Jepara business, emphasized that financial reports are very important for knowing income and facilitating the loan process. This shows that financial reports not only function as records, but also as a tool for strategic decision making.

However, overall, not all interviewed MSMEs apply or record financial reports for reasons such as those stated by Mr. Doni, who stated that financial reports help in understanding the financial condition of the business. He realized that by recording income and expenses, he could avoid losses.

This awareness shows that although not all MSMEs apply good recording because they are lazy and do not have time to record, they still understand the need for financial reports to maintain financial health.

In addition to being lazy or not having time to do the recording, there are several obstacles experienced by informants when interviewed regarding what obstacles are experienced in recording financial reports. In this case, although many MSME actors acknowledge the importance of financial reports, obstacles in the preparation remain. Several actors, such as Mas Imam from IM_STORE, admitted that they had not made formal financial reports because they felt that their business was still small. This shows that there is an assumption that financial reports are only important for larger businesses, even though in reality, all businesses require a good recording system.

As stated by Ms. Lina, this financial report is not only useful in the short term, but also has a long-term impact on business development. Ms. Lina from Karya Logam Furniture stated that financial reports help her plan strategies and make more appropriate decisions. This shows that a good understanding of financial reports can improve the ability of MSMEs to plan business growth.

So the informants who have been interviewed hope that there will be support from the government or related institutions in the form of training on financial reports. These informants want practical training so that these informants can understand how to prepare good financial reports. This hope reflects the informants' awareness of the importance of knowledge and skills in managing finances by recording financial reports.

Below is information collected from one of the UMKM, namely Es Teh Capital, which is willing to show a simple business bookkeeping format. The researcher tries to show how the business uses a simple format.

If a business follows the standard, they must report every transaction that occurs each day as mentioned above. However, if they use the simplified format, they only need to compile it simply without having to report every transaction.

Implications of the meaning of financial reports in the context of MSME business actors in Jepara Regency

This financial report plays an important role in business management, especially for MSMEs. In this case, the correct interpretation of this financial report can have a very significant impact on strategic decisions and also on business continuity, in Jepara Regency itself, the understanding and application of financial reports by MSMEs reflects the need for better financial management.

This financial report can help UMKM actors in Jepara district in making better decisions, as expressed by Ms. Lina, the owner of a metal furniture business, she said that to plan a strategy and also in making more appropriate decisions. And with clear financial data, these UMKM actors can evaluate the performance of a business, then it can be used in determining product prices and planning the necessary investments. In addition to making decisions, with this financial report, UMKM actors in Jepara district can show the credibility of their business to third parties. In this case, Mrs. Halimah emphasized the importance of financial reports to facilitate loan applications and also cooperation activities. This shows that this financial report functions to build trust between UMKM actors and also from outside parties.

By using financial reports, UMKM actors in Jepara district can manage resources more efficiently, as expressed by Mr. Doni as the owner of Omah Lurik Jepara that understanding financial reports allows Mr. Doni to better understand income and expenses, so that losses can be avoided. By

means of good recording, UMKM actors in Jepara district can minimize wasteful spending and also maximize the use of existing resources.

This financial report can also function as a tool used to identify problems and opportunities. By looking at the trend of financial reports, these UMKM actors can identify areas that need to be improved. Such as unnecessary expenses or stagnant sales. In addition, this financial report can help UMKM actors who can see new opportunities, as expected by Mas Imam as the owner of the IM_STORE business.

With the support of government institutions and also with the education on financial reporting, MSMEs can increase their capacity, which in turn can support the growth of their businesses. From interviews with informants, it can be seen that MSMEs in Jepara Regency have hopes of getting further training on financial reporting. These informants want support from the government or related institutions in order to improve their understanding and intelligence in financial management.

For this, the meaning of financial reports in the context of business from UMKM actors in Jepara Regency functions as a decision-making tool, transparency, and also resource management, as well as identification of problems and opportunities, and support for business growth. With a good understanding and also the right support, these UMKM actors can utilize financial reports to achieve greater success for their businesses.

5. Conclusion and Suggestion

Conclusion

The results of the study indicate that MSME actors in Jepara Regency understand the importance of financial reports to maintain financial health and support strategic decision making, although not all implement them completely; some have recorded, while others face obstacles such as time and the assumption that financial reports are only important for large businesses.

Suggestion

1. For MSMEs in Jepara Regency: Business actors are advised to use financial reports according to established standards, because this provides convenience and many benefits in recording financial reports.
2. For Researchers: Researchers are advised to prepare potential participants well in advance and provide flexible time for meetings, as well as prepare more data so that the same obstacles do not arise in further research.

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