The Effect of Understanding Accounting Concepts on the Quality of Financial Statements of Private Companies

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Abstract

The quality of financial statements is an important factor in providing reliable information for the company's stakeholders. This study aims to analyze the influence of understanding accounting concepts on the quality of financial statements in private companies. The research uses a quantitative approach with a causal design. The research sample consisted of 10 private companies with a total of 40 respondents which included accounting staff, revenue treasurer, expenditure treasurer, and financial manager. Data was collected through questionnaires to measure understanding of accounting concepts and corporate financial statements to measure the quality of financial statements proxied using discretionary accruals. Data analysis was performed using simple linear regression using of SPSS applications. The results showed that understanding accounting concepts had a negative and significant effect on the quality of financial statements, with a regression coefficient of –0.031 and a significance level of 0.000 ($p < 0.05$). The value of the determination coefficient (R^2) of 0.386 indicates that the understanding of accounting concepts is able to explain 38.6 percent of the variation in the quality of financial statements. These findings confirm that increasing understanding of accounting concepts plays an important role in improving the quality of financial statements of private companies.

Keywords: Understanding of Accounting Concepts; Quality of Financial; Private Companies; Accounting; Financial

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2nd International Conference on Islamic Community Studies (ICICS)
Theme: History of Malay Civilisation and Islamic Human Capacity and Halal Hub in the Globalization Era
https://proceeding.pancabudi.ac.id/index.php/ICIE/index

Introduction

The quality of financial statements has long been a central issue in accounting studies because financial statements are the main means for companies to communicate economic conditions and financial performance to stakeholders [1]. For private companies, quality financial statements have a strategic role in building the trust of investors, creditors, and business partners, as well as being the basis for economic decision-making that has direct implications for business sustainability. However, although accounting standards have been systematically drafted and widely applied, financial reporting practices in private companies show mixed qualities [2]. These differences in quality indicate that the existence of accounting and regulatory standards alone is not enough to guarantee the presentation of reliable and relevant financial statements, but is greatly influenced by the company's internal factors, especially the quality of human resources involved in the process of preparing financial statements [3].

In the practice of preparing financial statements, understanding accounting concepts plays an important role because it is the basis for report compilers to interpret and apply accounting standards appropriately [4]. Understanding accounting concepts is not only related to the technical ability of recording transactions, but also includes understanding fundamental principles such as the concept of accrual, business continuity, consistency, and fairness in the presentation of financial information [5]. When this conceptual understanding is low, the preparation of financial statements tends to be mechanical and oriented towards the fulfillment of formal obligations, without considering the actual economic substance of the transaction. This condition has the potential to result in financial statements that appear administratively correct, but are less relevant and less reliable for information users [6].

Theoretically, the relationship between the understanding of accounting concepts and the quality of financial statements can be explained through the perspectives of agency theory and positive accounting theory. Agency theory highlights the potential for conflicts of interest between management as agents and owners as principals, which can encourage opportunistic reporting practices [7], [8]. In this context, a good accounting understanding acts as an internal mechanism that is able to suppress information asymmetry and reduce the chance of manipulation or biased presentation of information. Meanwhile, positive accounting theory explains that the accounting policy choices taken by management are greatly influenced by incentives and the ability to understand the economic consequences of each policy alternative [9]. Thus, understanding accounting concepts is an important factor that affects the quality of professional considerations in the process of preparing financial statements.

Empirical findings in the last five years show that accounting competence and understanding have a significant relationship with the quality of financial statements, both in the public and private sectors. A number of studies have found that individuals or teams of financial report compilers with a higher level of accounting understanding tend to produce financial statements that are more accurate, timely, and in accordance with applicable disclosure principles. However, most previous research has still focused on micro, small, and medium enterprises or public sector organizations, while empirical studies that specifically examine private companies are relatively limited. In addition, differences in company characteristics, transaction complexity, and variable measurement methods cause the results of previous research to be not fully consistent, thus opening up space for further research [10], [11], [12], [13].

In the context of private companies, the complexity of business transactions and high performance pressures demand the ability of financial report compilers to conduct accounting considerations more carefully and professionally. Without an adequate understanding of accounting concepts, this complexity has the potential to reduce the quality of financial statements due to the increased risk of misrecognition, measurement, and disclosure of information [6]. Therefore, this study seeks to empirically examine the influence of understanding accounting concepts on the quality of financial statements of private companies.

This research is expected to make a theoretical contribution by strengthening empirical evidence on the role of internal factors of human resources in determining the quality of financial reporting, as well as providing practical implications for private company management in designing strategies to improve accounting competency as an effort to improve the quality of financial reports in an ongoing manner.

Research Methodology

This study uses a quantitative approach with a causal design. The research population is a non-financial private company in Indonesia that routinely prepares annual financial statements. The research sample consisted of 10 private companies selected using purposive sampling techniques with certain criteria, namely the availability of financial statements and the existence of internal accounting units. Data is collected through two techniques, namely primary data and secondary data. Primary data was obtained through questionnaires distributed to treasurers, finance managers, and accounting staff to measure understanding of accounting concepts using a five-point Likert scale. Secondary data is obtained from the company's financial statements to measure the quality of financial statements proxied with discretionary accruals.

Data analysis was performed using multiple linear regression with the help of SPSS. The research model included company size and leverage as control variables. Before testing the hypothesis, validity, reliability, and classical assumptions tests were carried out to ensure the feasibility of the model.

Results

Descriptive statistics are used to provide a preliminary overview of the characteristics of the research data before hypothesis testing is carried out. All data was processed using SPSS version 26 with a total of 40 respondents from 10 private companies, each consisting of accounting staff, revenue treasurers, expenditure objects, and financial managers. The following are the results of descriptive statistical processing in table 1.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Red	Std. Deviation
Understanding of Accounting Concepts	40	2,85	4,80	3,92	0,44
Quality of Financial Statements (Discretionary Accrual)	40	0,028	0,149	0,079	0,029

Source: Data processed by the Researcher

Based on Table 1, the average value of understanding accounting concepts shows that respondents generally have a good understanding, while a relatively low average value of discretionary accrual indicates a fairly good quality of financial statements.

Before testing hypotheses using regression analysis, a classical assumption test is first carried out to ensure that the research data meets the necessary statistical requirements. One of the main assumptions that must be met is the normality of the data distribution, which aims to ensure that the residual in regression mode is distributed normally. The results of the data normality test using the Kolmogorov-Smirnov presented in the following Table 2:

Table 2. Data Normality Test Results

Variable	Asymp. Sig (2-tailed)	Remarks
Non-Standardized Residual	0,181	Normal Distributed data

Source: Data processed by Researcher

Based on Table 2, the significance value of the Kolmogrov-Smirnov test of 0.181 is greater than 0.05, so it can be concluded that the residual data is normally distributed and the regression model meets the assumption of normality. In addition to the normality test, the next test aims to determine the relationship between the understanding of accounting concepts and the quality of financial statements. For this purpose, Pearson correlation analysis is used, the results of which are presented in Table 3 below:

Table 3. Pearson Correlation Analysis Results

Variable	Understanding of Accounting Concepts	Quality of Financial Statements
Understanding of Accounting Concepts	1	-0,621**
Quality of Financial Statements	-0,621**	1

Source: Data processed by Researcher

Based on table 3 above, the value of the Pearson correlation coefficient of -0.621 with a significance level of 0.000 indicates a strong and significant negative relationship between the understanding of accounting concepts and the quality of financial statements, which indicates that the higher the understanding of accounting concepts, the better the quality of the company's financial statements. After it is known that there is a relationship between the understanding of accounting concepts and the quality of financial statements, the next analysis is carried out to determine the amount of contribution of understanding of accounting concepts in explaining variations in the quality of financial statements through simple linear regression analysis. A summary of the regression model results is presented in the following table 4:

Table 4. Simple Linear Regression Results

Models	R	R Square	Adjusted R Square
1	0,621	0,386	0,370

Source: Data processed by Researcher

Based on table 4 above, the R square value is 0.386 which shows that the understanding of accounting concepts is able to explain 38.6% of the variation in the quality of financial statements, while the rest is influenced by other factors outside the research model.

The results of this study show that the understanding of accounting concepts has a significant effect on the quality of financial statements, which is reflected in the negative regression coefficient and the significance of discretionary accrual values. These findings indicate that the better the understanding of accounting concepts possessed by the compiler of financial statements, the less likely it is that profit management practices will occur, so that the quality of the financial statements produced will increase. These results confirm that the quality of financial statements is not only influenced by applicable standards and regulations, but also highly determined by the quality of conceptual understanding of accounting human resources within the company.

The findings of this study are in line with a number of previous studies that stated that accounting understanding or competence has a positive effect on the quality of financial statements. Research conducted by Taufiqurrohman et al. found that accounting understanding has a significant effect on the quality of financial statements, which shows that individuals with a good accounting understanding tend to be able to compile financial statements more accurately and reliably. These results strengthen the findings of this study that understanding accounting concepts is an important determinant in producing quality financial reports [14]. The results are also shown by Nurul Abidah's research which researched the context of MSMEs and found that accounting understanding has a positive effect on the quality of financial report preparation. Although the organizational context is different from that of private companies, the findings show a consistent pattern that understanding accounting concepts has an important role

in improving the quality of financial information [15]. In addition, research conducted by Dewi (2024) also concluded that accounting understanding contributes significantly to the quality of financial statements, especially in the aspect of the accuracy of recording and disclosing financial information. These findings support the results of current research that places the understanding of accounting concepts as a strategic internal factor in the financial reporting process.

However, the results of this study are not entirely in line with all previous studies. Several studies show that understanding accounting does not have a significant effect on the quality of financial statements. Research conducted in the context of local government in Mentawai Islands Regency found that accounting understanding does not have a significant effect on the quality of local government financial statements. The research shows that although the level of accounting understanding is relatively good, other factors such as internal control systems and regulatory compliance are more dominant in influencing the quality of financial statements [1]. The results that are not in line are also shown by a study conducted on a village office in Dompu Regency, which concluded that accounting understanding does not have a significant effect on the quality of financial statements when accounting information system variables are included in the research model. The findings indicate that in the context of a particular organization, the influence of accounting understanding may not be dominant if reporting systems and procedures have been strictly standardized [16].

The difference in results between this study and previous research that is not in line can be explained by differences in organizational context, respondent characteristics, and analysis models used. In the context of private companies, financial report compilers have greater flexibility in accounting decision-making, so that understanding accounting concepts has a more direct influence on the quality of financial statements. In contrast, in the public sector or village government, the financial reporting process tends to be more procedural and highly dependent on systems and regulations, so the role of individual understanding becomes relatively more limited. Thus, the results of this study enrich the accounting literature by showing that the influence of understanding accounting concepts on the quality of financial statements is contextual. These findings confirm that in the environment of private companies, increasing the understanding of accounting concepts in financial report compilers is a key factor in improving the quality of financial reporting.

Conclusion

This study shows that understanding accounting concepts has a significant effect on the quality of financial statements of private companies. Increasing the understanding of accounting concepts in the compiler of financial statements has been proven to be able to reduce the level of discretionary accrual, which indicates an improvement in the quality of financial statements. These findings confirm that the quality of financial reporting is not only determined by applicable accounting standards, but is also greatly influenced by the competence and conceptual understanding of accounting human resources.

Private companies are advised to improve their understanding of accounting concepts through training and competency development for all parties involved in the preparation of financial statements. Further research is expected to expand the scope of the sample and add other relevant variables to gain a more comprehensive understanding of the factors that affect the quality of financial statements.

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