



## MSMEs PERFORMANCE: MEASURED BY ACCOUNTING KNOWLEDGE AND USE OF ACCOUNTING INFORMATION

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### Abstract

*This quantitative research uses data collection techniques and questionnaire methods given to 60 micro, small, and medium enterprises (MSMEs) in Padang Lawas Regency, North Sumatra Province. This study aims to determine whether Accounting Knowledge and Accounting Information significantly influence the performance of MSMEs in Padang Lawas Regency, especially in Lubuk Barumun District. The study results found that Accounting Knowledge significantly affects the Performance of MSMEs. The use of accounting information significantly affects the performance of MSMEs. Accounting Knowledge and Use of Accounting Information significantly influence the Performance of MSMEs.*

**Keywords:** *Accounting Knowledge, Use of Accounting Information, MSME Performance.*

### 1. Introduction

Data from the Central Statistics Agency (BPS) shows that the number of MSMEs in Indonesia grows yearly. The contribution of the MSME sector to the Gross Domestic Product (GDP) reached 60.34%. Based on labor data, MSMEs can absorb labor of up to 57.9 million, which means 97.22% in various regions in Indonesia. The large number is certainly correlated with the capacity to absorb labor. It should be realized that with a high level of employment, the MSME sector has ensured labor market stability, reduced unemployment and momentum for the rise of new entrepreneurs. MSME actors should be able to understand the preparation of good and quality financial reports, namely with an understanding of accounting (Saragih et al., 2023). The development of the business world must be distinct from the role of micro, small and medium enterprises (MSMEs).

Micro, small, and medium enterprises have experienced rapid growth over the last period. MSMEs are a business sector that plays an important role in Indonesia's economic growth. Apart from having a share in providing employment, MSMEs are also a chain of distribution of development results. The rapid growth in the number of MSMEs, which reaches an average of 4.2 per cent annually, has contributed to more than 50% of Indonesia's gross domestic product (GDP) for the last 3 years (Mujiatun et al., 2022). To maintain the growth of MSMEs, they must improve and keep up with the development of existing situations. MSMEs that are reliable and ready for competition must be accompanied by adequate technology and information systems (Dahrani et al., 2022). One of the problems faced by small and medium business actors is organizing and utilizing accounting information in managing their business (Susilowati et al., 2023), even though the availability of accounting information is very helpful in knowing business development. However, many entrepreneurs need accounting knowledge, and some need to understand the importance of recording and bookkeeping for business continuity. Padang Lawas Regency in Sumatra Province has 2,529

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MSMEs recorded; specifically, in Lubuk District, there are 149 MSMEs from 24 villages. The results of interviews conducted in January 2024 with several MSME players in the Lubuk Barumon sub-district found that most MSME players did not know accounting and the use of accounting information. From these interviews, it was found that MSME actors keep records of income and purchase of goods. However, usually, if there is a need, such as the need to access loans to banks or certain financial institutions that require financial data, then they will try to prepare financial data.

Meanwhile, the other two informants interviewed admitted that they did not understand what accounting was at all, starting from financial recording. Even when recording what transactions were issued, the actors did not record them because they forgot and had become a habit. The owner's lack of accounting knowledge causes many small companies to fail, which is risky for business sustainability (Hudha, 2017). Accounting financial records are considered too complicated to carry out on a small scale because the business cycle in MSMEs is simple, so the actors think that preparing financial reports is unimportant in their business.

Many MSMEs still need complete and valid reports. Therefore, accounting knowledge is needed for MSME actors so that the information presented and decision-making will also be more accurate. Accounting information can be the basis for making business decisions, so it has a very important influence on achieving business success (Astuty, 2015), including SMEs. Low knowledge of bookkeeping automatically inhibits them from carrying out financial bookkeeping activities. MSME owners can use accounting information in financial records to determine exactly how much revenue is received, how much operating costs should be incurred and how much should still be left. Information users can process financial data and are involved in financial and non-financial decision-making. Accounting information, including operating information, management information, and financial accounting information, can be used by MSME actors to assist in business planning, control business activities, make decisions in business management, and evaluate so that it can support business success. Accounting information has an important influence on achieving business success and can compete in business competition, including MSMEs (Mahfuz & Hanum, 2023).

Accounting knowledge also plays a big role in the business's progress. Small and medium business owners with accounting knowledge will benefit from using accounting information. Low accounting knowledge will cause the business to experience management failure, so it is very difficult for business people to determine what policies to take. Many entrepreneurs must close their businesses because they need accounting knowledge to make an accounting decision (Sitorus, 2017). It is also important that many of these micro, small, and medium enterprises need to take advantage of the growing accounting information system (Saragih et al., 2023). This is very risky for business sustainability, as business actors need better planning for the business. This can hinder the development of MSMEs from reaching a wider market, and they can even be threatened with bankruptcy at any time.

**2. Literature Review****2.1 MSME**

According to Law No. 20 of 2008, MSMEs are productive businesses owned by individuals or business entities that have met the criteria of micro businesses. A country is said to be developed can be seen from several sides, one of which is the welfare of its people. Small businesses are independent, productive economic businesses carried out by individuals or business entities that are not subsidiaries or branches that are owned, controlled or part, either directly or indirectly, of medium or large businesses that meet the criteria for small businesses as referred to in the law (Tambunan, 2019). Meanwhile, micro-enterprises are independent, productive economic businesses carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of micro-enterprises, small businesses or large businesses that meet the criteria for micro-enterprises as referred to in the Law (Tambunan, 2019). According to (Nasution et al., 2022),

performance is the result of work that strongly relates to the organization's strategic goals and customer satisfaction and contributes to the economy. Company performance is something that a company produces in a certain period about established standards. Company performance should be a result that can be measured and describes the empirical condition of a company from various agreed measures (Hayati et al., 2015).

## 2.2 Accounting Knowledge

Accounting knowledge is a tool in the form of facts, truths, or information about the process of recording, grouping, and summarizing the economy in an organized form to present the financial information needed for decision-making. Accounting knowledge can be understood by knowledge of debits and credits and recording, grouping, and summarizing transactions by recording purchases, cash-in, cash-out, and expenses, including financial reporting (Yuli & Sigit, 2018). Accounting knowledge is needed to produce accounting information, and everything known about accounting is obtained from informal and formal education owned by users of accounting information. Accounting knowledge must be owned by company managers, owners, and stakeholders and owners.

## 2.3 Accounting Information

Accounting information is synonymous with quantitative information related to numerical data and monetary units, which is important information to help management manage company operations. Accounting information is generated by recording and summarizing financial transaction data and presenting it as financial statements. MSMEs that use accounting information will be seen from how they utilize recording information, such as sales records, cash-in and cash-out purchases and other information, to estimate sales or purchases at a certain time to make financial decisions (Failia & Diptyana, 2012). Management needs daily operational reports to control or direct daily routine activities. A company's operating information generally includes sales, production, payroll, accounts payable, expenditures, fixed assets, etc.

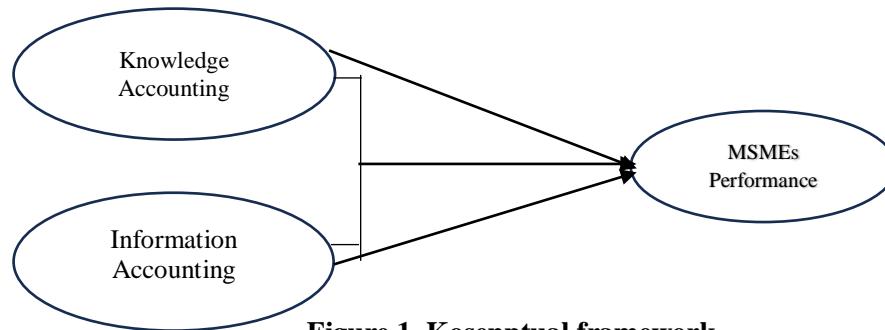
## 2.4 Conceptual Framework

Accounting knowledge can be defined as the truth of information about recording, classifying, and summarizing economic events for decision-making (Setiawati et al., 2021). Accounting knowledge significantly affects the use of accounting information in small and medium enterprises (SMEs), which means that the better the accounting knowledge possessed by SME owners, the better the use of accounting information is carried out (Hudha, 2017). Based on the results of the research (Saragih et al., 2023) that has been done, it can be concluded that Accounting Understanding has a significant direct effect on the development of MSMEs.

Information systems are systems within the company responsible for preparing financial information and information obtained from collecting and processing various company transactions (Rainer & Prince, 2021). Based on the results of research (Saragih et al., 2023), accounting information affects the behaviour of MSMEs. The use of accounting information has an effect because every educational forum that teaches about accounting certainly provides accounting knowledge, including the use of accounting information such as financial reports. Respondents (Sitorus, 2017). The framework of this research is as follows:

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**Figure 1. Kosenptual framework**

**3. Methods**

This type of research uses an associative approach to determine the presence and absence of influence or relationship between the independent and dependent variables (Irfan et al., 2024). In this study, the population used is business owners in MSMEs in Lubuk Barumun District with a population of 149 registered in Padang Lawas Regency and registered with the Office of SME Cooperatives, Industry of Padang Lawas Regency. To confirm, five informants were used to obtain in-depth information related to accounting information and MSMEs' performance. The sampling method in this study uses the Probability sampling method with a sampling technique, namely random sampling, where all population members have the same probability or opportunity to be selected as a sample. In this study, 60 samples were used. The data collection methods used in this study are observation, interviews and questionnaires. To get good data in the sense of approaching reality (objective), of course, an instrument or measuring instrument that is valid and reliable is needed to be able to believe that the instrument or measuring instrument is valid and reliable. Before use, the instrument must be tested for validity and reliability so that when used, it will produce objectives. This research will use the Smart PLS application.

**4. Results**

The initial identification of the results of previous interviews was confirmed by the results of collecting questionnaires, which showed that most of the MSME actors in Padang Lawas still need to learn what accounting knowledge is and the importance of accounting records. The actors also often assume that financial preparation is unimportant to their business. In addition, MSME actors need to improvise and utilize accounting information in their business.

The results of the questionnaire collection confirmed the initial identification from the previous interview that most of the MSME actors in Padang Lawas still need to learn what accounting knowledge is and the importance of accounting records. Actors also often think that financial preparation is not important to their business. In addition, MSME actors need to gain knowledge and organize and utilize accounting information in their businesses.



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**Table 1. Respondent Data**

Gender	Sum	Type of Business	Sum
Male	26	Workshop Services	8
Female	34	Tailor	4
		Living room	2
		Laundry	2
Education			
HIGH SCHOOL	28	Culinary	14
Diploma	15	Trade	18
Bachelor	17	Jewelry Stores	2
		Convection Apparel	5
		Electronics	5
Age (year)		Length of Business (year)	
26-30	5	<5	24
31-35	10	5-10	27
36-40	24	11-15	8
41-45	14	>15	1
46-50	5		
53-54	2		

Starting with validity testing using the outer model, convergent validity, discriminant validity, and reliability testing with Cronbach alpha and composite reliability, it was found that the instrument met the validity eligibility criteria because the convergent validity and discriminant validity numbers exceeded 0.70. Similarly, with the reliability test, it was found that the Cronbach alpha value of 0.60 could meet the feasibility of the data.

#### 4.1 Convergent Validity

The validity test determines whether an instrument is valid or invalid when measuring a research variable, such as on a questionnaire (Slamet & Wahyuningsih, 2022). Indicators are considered valid if they have an outer loading value on the variable dimension greater than 0.6, indicating that the measurement meets the validity criteria.

**Table 5. Outer Loading Results**

	MSMEs Performance	Knowledge Accounting	Accounting Information
X1.1		0.872	
X1.2		0.591	
X1.3		0.216	
X1.4		0.756	
X1.5		0.792	
X1.6		0.893	
X1.7		0.816	
X1.8		0.797	
X1.9		0.405	
X2.1			0.774
X2.2			0.020

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X2.3			0.806
X2.4			0.189
X2.5			0.596
X2.6			0.452
X2.7			0.352
X2.8			0.455
X2.9			0.139
Y1	0.799		
Y2	0.878		
Y3	0.535		
Y4	0.726		

Based on the calculation and testing of the outer loading validity above, it was found that after testing the research items on 60 respondents, four questions on the MSME Performance variable met the standard with a value above 0.60. In contrast, 1 question did not meet the standard with a value below 0.60. In the Accounting Knowledge variable, six questions meet the standard with a value above 0.60, while three questions do not meet the standard below 0.60. In the Accounting Information User variable, two questions meet the standard with a value above 0.60, while seven questions do not meet the standard with a value below 0.60. A statement item is considered reliable if the composite reliability exceeds 0.60 to evaluate composite reliability. The following are the results of the composite reliability test:

**Table 6. Composite Reliability Test Results**

Research Variables	Composite Reliability
MSMEs Performance	0.846
Accounting Knowledge	0,919
Accounting Information	0,677

Based on the table above, the construct reliability on Composite Reliability has met the established standards; the value is above 0.60. Thus, all constructs show satisfactory reliability, and MSMEs' Performance, Accounting Knowledge, and Use of Accounting Information have met the assumptions of reliability testing well.

**4.2 Discriminant Validity**

Discriminant validity is a method used to measure the difference between two variables with conceptual similarities, as Ghozali and Latan (2015) explained. Discriminant validity assessment considers the AVE (Average Variance Extracted) value and the correlation between constructs or latent variables. Latent variables have high discriminant validity if the recommended AVE value equals or exceeds 0.50.

**Table 7. Average Variance Extracted (AVE) Test Results**

Research Variables	Average Variance Extracted (AVE)
MSMEs Performance	0.846
Accounting Knowledge	0,919
Accounting Information	0,677

The table above shows that the Average Variance Extracted value has met the standard with a value greater than 0.50. Thus, the variables in this study have met the criteria for testing discriminant validity. This confirms that the variables of MSMEs' performance, accounting knowledge, and accounting information users are based on the assumptions of discriminant validity testing. This assessment ensures that the measured variables can distinguish between conceptually similar concepts or variables in the research context.



### 4.3 Structural Model Evaluation

Testing the inner model aims to determine the relationship between variables. The measurement is done by examining the R-squared and F-squared values.

#### 4.3.1 R-Square Test Results

R-Square is an indicator that measures how much variation in the value of the affected variable (endogenous) can be explained by the variables that affect it (exogenous). This measurement is useful for evaluating the quality of the model, whether good or bad (Juliandi, 2018). The R-Square standard is if the (adjusted) value = 0.75, and then the model is substantial (strong); if the (adjusted) value is 0.50 → the model is moderate (moderate). If the (adjusted) value = 0.25, the model is weak (bad).

**Table 8. R-Square Test Results**

	R-Square	Adjusted R-Square
MSME Performance	0.601	0.587

The criteria for the R-Square value model ( $R^2$ ) in the table above indicate that each structural model (inner model) in this study is included in the "medium" category. This shows that all variables involved in the model can explain the Y variable by 0.601 or 60.1%, with the remaining 39.9% explained by other variables outside the model.

#### 4.3.2 F-Square Test Results

The F-Square or effect size measurement is used to evaluate the relative impact of an influencing variable (exogenous) on an influenced variable (endogenous). This concept is also known as the effect of change, which reflects the change in value when a particular exogenous variable is removed from the model. Using measurement (F-square) helps assess whether a particular variable's removal substantially impacts the endogenous construct (Juliandi, 2018). The F-Square criteria can be explained if the value = 0.02, indicating a low impact of the exogenous variable on the endogenous; if the value = 0.15, indicating a medium impact of the exogenous variable on the endogenous and if the value = 0.35, reflecting a high impact of the exogenous variable on the endogenous.

Evaluation using F-Square is crucial to understanding how much changes in exogenous variables can affect endogenous variables in a model.

**Table 9. F-Square Test Results**

	MSME Performance	Accounting Knowledge	Use of Accounting Information
MSME Performance			
Accounting Knowledge	0.089		
Accounting Information	0.398		

Based on the table above regarding the F-Square value, the results obtained are the effect of accounting knowledge on the performance of MSMEs  $0.089 > 0.02$ , meaning that it has a small (weak) effect and the effect of using accounting information on MSMEs performance  $0.398 > 0.35$ , meaning that the influence is classified as strong or has a large effect.

### 4.4 Hypothesis Testing

Hypothesis testing is carried out by comparing the calculated t value with the t value in the table. This comparison is used to determine whether the variable has an impact. The calculated t value is obtained from

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the results of the bootstrapping process using Smart PLS 4 software. Using the bootstrapping method in testing aims to reduce the problem of non-normality in research data. The results obtained from the data analysis that researchers have carried out are used to provide answers to the hypotheses proposed in this study. Hypothesis testing is carried out by applying t statistics and p-value. The hypotheses in this study are verified if the p-value is less than 0.05. The following are the results of hypothesis testing obtained through the inner model. Hypothesis testing consists of the T (partial) and F (simultaneous) tests.

**4.4.1 T-Statistical Test (Partial)**

The statistical test results show how much influence one independent variable has partially on explaining the dependent variable. This testing process is done by comparing the calculated t value with the t value in the table. Determining whether the hypothesis is accepted or rejected is based on the criterion that if the significance value is less than 0.05, the hypothesis is accepted; conversely, if the value is more than 0.05, the hypothesis is rejected. The partial statistical test table in the SmartPLS 4 output is presented as follows.

**Table 10. Path Coefficient Test Results**

	T Statistics	P Values
Accounting Knowledge -> MSME Performance	2.327	0.010
Accounting Information -> MSME Performance	5.081	0.000

Based on the data above, the path coefficient results show that the effect of accounting knowledge on MSMEs performance has a t-statistic value of 2.327. P-Value 0.010 <0.05 shows that Accounting Knowledge affects MSMEs Performance. So, the first hypothesis is accepted. The effect of using accounting information on the performance of MSMEs has a t-statistic value of 5.081. P-value 0.000 <0.05 indicates that the use of accounting information affects the performance of MSMEs. So, the second hypothesis is accepted.

**4.4.2 F Statistical Test (Simultaneous)**

The F test is a data analysis method used to check the suitability of the model used by testing the overall level of influence between variables. The hypothesis is accepted if the significance value is less than 0.05. Conversely, the hypothesis will be rejected if the value exceeds 0.05.

**Table 11. F Statistical Test (Simultaneous)**

	Sum Square	Df	Mean Square	F	P Value
Total	235.333	59	0.000	0.000	0.000
Error	114.733	57	2.013	0.000	0.000
Regression	120.600	2	60.300	29.957	0.000

Based on the table above, the results of testing the F-Statistic hypothesis are 29,957. P-value <0.5, namely 0.000. Therefore, the Accounting Knowledge variable (X1) and the Use of Accounting Information (X2) have a significant effect on the MSMEs Performance variable (Y) simultaneously.

**5. Discussion**

**5.1 The Effect of Accounting Knowledge on the Performance of MSMEs in Lubuk Barumun District**

From the results of the hypothesis, the results of the hypothesis testing analysis show that the effect of Accounting Knowledge on MSME Performance has a t-statistic value of 2.327. P-Value 0.010 <0.05 shows that Accounting Knowledge affects MSME Performance. So, the first hypothesis is accepted. The original sample value as the path coefficient of Accounting Knowledge on MSME Performance is 0.274, meaning that good Accounting Knowledge can improve MSME Performance. Increased accounting



knowledge among Micro, Small and Medium Enterprises (MSMEs) has the potential to improve their business performance substantially. Knowledge of basic accounting concepts, such as transaction recording, inventory management, and financial analysis, provides MSME owners with powerful tools to manage their finances more efficiently and effectively. By understanding how to create and read financial statements, MSME owners can better assess the financial health of their business, identify areas where they can improve efficiency, and make better strategic decisions for long-term growth. In addition to improving the performance of MSMEs through improved accounting knowledge, their potential contribution to the local economy can be strengthened (Natsiruddin et al., 2023). Investment in improved accounting knowledge among MSMEs impacts individual business growth and solidifies a stronger and more sustainable local economic foundation (Mahfuz & Hanum, 2023). The results of this study are also in line with previous research written by, (Setiawan et al., 2024) ; (and Ulyani et al., 2024), which states that the accounting knowledge variable has a significant effect on the performance of micro, small and medium enterprises.

## **5.2 The Effect of the Use of Accounting Information on the Performance of MSMEs in Lubuk Barumun District**

From the results of the hypothesis, the results of the hypothesis testing analysis show that the effect of the Use of Accounting Information on MSME Performance has a t-statistic value of 5,081. P-Value 0.000 < 0.05 indicates that the use of accounting information affects the performance of MSMEs. So, the second hypothesis is accepted. The original sample value as the Accounting Information User path coefficient is 0.580. Thus, this shows that the more Accounting Information is known, it can improve the performance of MSMEs. The results of the study indicate the influence of the use of accounting information on the performance of Micro, Small and Medium Enterprises (MSMEs) in Lubuk Barumun District where from the results of the F-Square test, the effect of the use of accounting information on the performance of MSMEs is  $0.398 > 0.02$ , which means that the use of accounting information has a large and significant impact/effect on the performance of MSMEs.

By utilizing accounting information effectively, MSME owners can make more informed decisions when managing their finances and business operations. Accounting information provides the data to monitor financial performance, identify trends, and measure achievement against business objectives. Thus, MSMEs that use accounting information well are likely to have better control over the direction and health of their business, which can lead to improved efficiency, growth, and profitability (Mahfuz & Hanum, 2023). Thus, the results of this study not only provide insight into the relationship between the use of accounting information and the performance of MSMEs in the Lubuk Barumun Sub-district and encourage the improvement of sustainable business practices and more inclusive economic development at the local level. The results of this study are supported by research (Ermawati & Arumsari, 2021) ; (Farina & Opti, 2023) and (Susanti et al., 2023) which states that the use of accounting information has a positive and significant effect on the performance of MSMEs.

## **5.3 Accounting Knowledge and the Use of Accounting Information significantly affect MSME Performance simultaneously.**

From the hypothesis testing analysis results, Accounting Knowledge and Use of Accounting Information simultaneously affect the performance of MSMEs with a statistical hypothesis test of 29,957. P-value < 0.5, namely 0.000. Therefore, the third hypothesis is accepted because there is a joint influence between the variables of Accounting Knowledge and the Use of Accounting Information on MSME Performance. The results of the study state that Accounting Knowledge and the Use of Accounting

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Information have a significant effect on the Performance of Micro, Small and Medium Enterprises (MSMEs) and simultaneously have important implications in improving the business performance and sustainability of MSMEs. With a good understanding of basic concepts such as recording transactions, preparing financial reports, and analyzing performance, MSME owners can make more informed decisions in allocating resources and planning more effective business strategies (Hudha, 2017). Simultaneously, the influence of Accounting Knowledge and the Use of Accounting Information on the performance of MSMEs also shows the importance of integrating these two aspects into daily business practices. Strong accounting knowledge will only provide full benefits if effectively applied to financial information for proper business decision-making. Conversely, using accounting information without adequate knowledge of accounting concepts and principles may not provide optimal benefits. Thus, the results of this study emphasize the importance of a holistic approach in strengthening MSMEs' performance, which involves improving accounting knowledge and implementing effective practices in the use of accounting information. This aligns with research (Setiawan et al., 2024), which states that the use of accounting information systems and accounting knowledge jointly affect the performance of micro, small and medium enterprises.

**6. Conclusions**

Based on the results of the research and discussion, the conclusions of this study are as follows: First, accounting knowledge affects the performance of MSMEs because it has a t-statistic value of 2.327. P-Value 0.010 <0.05. Accounting knowledge can provide important benefits for MSMEs, such as managing finances, making the right investment decisions, and planning more effective business strategies. Thus, these results reinforce the importance of understanding and applying accounting concepts in improving the performance of MSMEs, which in turn can positively impact the growth and sustainability of their businesses. Second, the Use of Accounting Information affects MSMEs' Performance, having a t-statistic value of 5.081. P-Value 0.000 <0.05. Using accounting information can provide MSME owners with better insight into managing their finances and operations, allowing them to make more informed and strategic decisions. Third, Accounting Knowledge and Use of Accounting Information simultaneously affect MSME Performance because the hypothesis test -Statistic is 29,957. P-Value <0.5, namely 0.000. This indicates that there is a possibility that changes in Accounting Knowledge and the Use of Accounting Information together significantly contribute to changes in the performance of MSMEs in the region under study. Using accounting information based on a strong understanding of accounting concepts can assist MSMEs in making more informed and strategic decisions.

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**MSMEs PERFORMANCE: MEASURED BY ACCOUNTING KNOWLEDGE AND USE OF ACCOUNTING INFORMATION**

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