



The Impact of Digital Accounting Literacy on Financial Reporting Quality Among MSMEs in Central Java

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Abstract

The rapid digital transformation of business practices has increased the importance of digital competencies in accounting, particularly for Micro, Small, and Medium Enterprises (MSMEs). This study aims to examine the effect of digital accounting literacy on the financial reporting quality of MSMEs in Central Java. The research adopts a quantitative approach using survey data collected from MSME owners and financial managers. Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) to evaluate the proposed research model.

The results indicate that digital accounting literacy has a strong and positive influence on financial reporting quality. MSMEs with higher levels of digital accounting literacy are better able to utilize accounting applications, record financial transactions accurately, and produce financial statements that are timely, reliable, and compliant with accounting standards. These findings suggest that digital accounting literacy plays a critical role in enhancing the quality of financial information in the MSME sector.

This study contributes to the accounting and MSME literature by emphasizing the importance of accounting-specific digital competencies rather than general digital literacy. Practically, the findings provide valuable insights for policymakers, educational institutions, and professional bodies in designing digital accounting training programs aimed at improving MSME financial transparency and sustainability.

Keywords: Digital Accounting Literacy, Financial Reporting Quality, MSMEs, PLS-SEM, Central Java

1. Introduction

The rapid development of digital technology has significantly transformed accounting practices, particularly within Micro, Small, and Medium Enterprises (MSMEs). Digital transformation enables financial recording and reporting processes to be conducted more efficiently, accurately, and systematically through the use of accounting software and digital information systems (Indra, 2025) ^[9]. MSMEs play a vital role in the Indonesian economy, contributing substantially to gross domestic product and employment absorption; however, many MSMEs still face challenges in producing high-quality financial statements (Azaro *et al.*, 2025) ^[1].

One of the major issues encountered by MSMEs is the limited capability of business owners in maintaining proper accounting records, insufficient understanding of accounting principles, and inadequate utilization of digital accounting technologies (Azaro *et al.*, 2025; Indra, 2025) ^[1,9]. The quality of financial statements is a crucial aspect, as it reflects the reliability and accuracy of financial information used for managerial decision-making, access to external financing, and long-term business sustainability. Accounting digital literacy has been identified as a key factor influencing the quality of financial reporting among MSMEs. Accounting digital literacy refers to the ability of MSME owners or managers to understand accounting concepts and apply them through digital technologies, including the effective use of accounting applications and digital financial reporting systems (Tanjung *et al.*, 2026) ^[14]. Previous studies indicate that digital literacy and accounting competence are positively associated with financial reporting quality and overall MSME performance (Hamzah & Rahmawati, 2024; Tanjung *et al.*, 2026) ^[8, 14].

Nevertheless, existing research predominantly focuses on general financial literacy or digital literacy, while studies that specifically examine accounting digital literacy in relation to financial statement quality remain limited, particularly in regional contexts such as Central Java.

This research gap highlights the need for empirical investigation into accounting digital literacy as a determinant of financial reporting quality among MSMEs. Accounting digital literacy is expected to enhance the effectiveness of accounting digitalization, enabling MSMEs to produce financial statements that are relevant, timely, and reliable. Despite the growing emphasis on digital transformation, empirical evidence on accounting digital literacy within Indonesian MSMEs is still scarce, thereby providing an opportunity for further academic contribution (Indra, 2025; Tanjung *et al.*, 2026) ^[9, 14].

Based on the above discussion, this study aims to analyze the effect of accounting digital literacy on the quality of financial statements of MSMEs in Central Java. The findings of this study are expected to contribute theoretically to the development of digital accounting literature and practically to MSME practitioners, academics, and policymakers in improving financial reporting quality through digital capability enhancement.

2. Literature Review

2.1. Accounting Digital Literacy

Digital literacy has become an essential competency in the modern business environment, particularly in the accounting field. In the context of MSMEs, accounting digital literacy refers to the ability of business owners or managers to understand accounting concepts and apply them effectively using digital technologies, such as accounting software, mobile financial applications, and digital reporting systems (Indra, 2025) ^[9]. This form of literacy goes beyond basic technological skills and encompasses the integration of accounting knowledge with digital tools to support accurate financial recording and reporting.

The increasing adoption of digital accounting systems among MSMEs is driven by the need for efficiency, transparency, and compliance with financial reporting standards. Studies indicate that MSMEs with higher levels of accounting digital literacy are more capable of utilizing accounting applications correctly, minimizing recording errors, and maintaining systematic financial documentation (Azaro *et al.*, 2025) ^[1]. Consequently, accounting digital literacy is considered a strategic resource that supports organizational learning and operational effectiveness within MSMEs.

From a theoretical perspective, accounting digital literacy can be explained through the Resource-Based View (RBV), which posits that intangible resources such as knowledge, skills, and technological competence can create competitive advantages when they are valuable, rare, and difficult to imitate. Accounting digital literacy represents a valuable organizational capability that enables MSMEs to improve internal processes and financial accountability (Tanjung *et al.*, 2026) ^[14].

2.2. Financial Statement Quality

Financial statement quality reflects the extent to which financial reports provide relevant, reliable, comparable, and understandable information for users' decision-making processes. High-quality financial statements are essential for MSMEs to support managerial planning, performance

evaluation, and access to external financing, including bank loans and government assistance programs (Hamzah & Rahmawati, 2024) ^[8].

In many developing economies, including Indonesia, MSMEs often struggle to produce financial statements that meet acceptable quality standards due to limited accounting knowledge and inadequate internal systems. Poor-quality financial statements are frequently characterized by incomplete transaction records, inconsistency in reporting, and non-compliance with applicable accounting standards such as SAK EMKM (Indra, 2025) ^[9]. These limitations reduce the credibility of financial information and weaken stakeholder trust.

Previous research emphasizes that financial statement quality is influenced not only by formal accounting standards but also by the competencies of individuals responsible for preparing financial reports. The ability to apply accounting principles accurately and consistently plays a critical role in determining the reliability of financial information (Azaro *et al.*, 2025) ^[1].

2.3. Accounting Digital Literacy and Financial Statement Quality

The relationship between accounting digital literacy and financial statement quality has gained increasing attention in recent accounting and MSME studies. Accounting digital literacy enables MSME owners to process financial data efficiently, ensure accurate classification of transactions, and generate timely financial reports using digital systems. Empirical evidence suggests that digital literacy and accounting competence are positively associated with financial reporting quality and business performance (Hamzah & Rahmawati, 2024; Tanjung *et al.*, 2026) ^[8, 14].

Digital accounting tools reduce manual recording errors and enhance data accuracy, but their effectiveness largely depends on the users' level of accounting digital literacy. MSMEs with limited literacy may underutilize digital systems or misuse accounting applications, resulting in inaccurate or misleading financial reports (Indra, 2025) ^[9]. Therefore, accounting digital literacy acts as a critical enabling factor that determines whether digital accounting adoption leads to improved financial statement quality.

Despite the growing body of literature on digitalization and MSMEs, studies that explicitly examine accounting digital literacy as a determinant of financial statement quality remain limited, particularly within regional contexts. Most existing studies focus on general financial literacy or digital literacy without isolating accounting-specific digital competencies. This study seeks to address this gap by providing empirical evidence from MSMEs in Central Java, thereby enriching the accounting digitalization literature with localized insights.

2.4. Research Framework

This study is grounded in the Resource-Based View (RBV), which emphasizes that organizational resources and capabilities are critical determinants of performance and competitive advantage. According to RBV, intangible resources such as knowledge, skills, and technological competence can generate value when they are effectively utilized within organizational processes. In the context of MSMEs, accounting digital literacy represents an intangible capability that enables business owners to manage financial information more efficiently and accurately.

Accounting digital literacy reflects the ability of MSME

owners or managers to integrate accounting knowledge with digital technologies, including accounting software and digital financial reporting systems. This capability allows MSMEs to improve the accuracy, completeness, and timeliness of financial records, which are essential components of high-quality financial statements. As digital accounting tools increasingly replace manual bookkeeping practices, the effectiveness of these tools largely depends on the users' level of accounting digital literacy.

Financial statement quality serves as the outcome variable in this study, representing the reliability and usefulness of accounting information for decision-making purposes. High-quality financial statements support managerial planning, facilitate access to external financing, and enhance business sustainability. Within the RBV framework, accounting digital literacy is expected to function as a strategic capability that strengthens internal accounting processes, ultimately leading to improved financial statement quality.

Based on this theoretical perspective, the research framework proposes a direct relationship between accounting digital literacy and financial statement quality among MSMEs in Central Java. The framework assumes that higher levels of accounting digital literacy enable MSMEs to utilize digital accounting systems more effectively, resulting in more accurate and reliable financial reporting.

2.5. Hypothesis Development

The relationship between accounting digital literacy and financial statement quality has been supported by prior empirical studies. Research indicates that digital literacy and accounting competence contribute positively to the quality of financial reporting by reducing recording errors, improving data consistency, and enhancing compliance with accounting standards (Hamzah & Rahmawati, 2024; Indra, 2025) ^[8, 9]. MSMEs that possess sufficient accounting digital literacy are better equipped to operate accounting applications, classify transactions correctly, and generate financial reports that meet users' information needs.

Furthermore, Tanjung *et al.* (2026) ^[14] argue that digital literacy enhances the efficiency of accounting processes, which in turn improves the quality of financial reports produced by MSMEs. Without adequate accounting digital literacy, the adoption of digital accounting systems may not yield the expected improvements in reporting quality, as users may lack the necessary skills to interpret and process financial information accurately.

Drawing on the Resource-Based View and existing empirical evidence, this study posits that accounting digital literacy plays a significant role in determining financial statement quality. Therefore, the following hypothesis is proposed:

H1: Accounting digital literacy has a positive effect on the financial statement quality of MSMEs in Central Java.

3. Research Methods

This study adopts a quantitative research approach with a causal research design to examine the effect of accounting digital literacy on the financial statement quality of Micro, Small, and Medium Enterprises (MSMEs) in Central Java. A quantitative approach is appropriate for this study as it allows for hypothesis testing and the measurement of relationships between variables using numerical data (Creswell & Creswell, 2018) ^[3]. The research employs a cross-sectional design, in which data are collected at a single point in time to

capture the current condition of accounting digital literacy and financial reporting quality among MSMEs.

The population of this study consists of MSMEs operating in Central Java. The unit of analysis is MSME owners or managers who are directly responsible for financial recording and reporting activities. A purposive sampling technique is used to ensure that respondents meet specific criteria relevant to the research objectives, namely MSMEs that conduct routine financial recording and utilize digital tools or applications in managing their financial information. Purposive sampling is considered appropriate in behavioral and accounting research when respondents are selected based on their knowledge and involvement in the phenomenon under investigation (Sekaran & Bougie, 2020) ^[12]. A minimum sample size of 100 respondents is deemed sufficient for structural model analysis using PLS-SEM, as recommended by Hair *et al.* (2022).

Primary data are collected through a structured questionnaire distributed both online and offline to MSME owners or managers in Central Java. The questionnaire uses a five-point Likert scale, ranging from strongly disagree to strongly agree, to measure respondents' perceptions of accounting digital literacy and financial statement quality. The use of questionnaires enables efficient data collection and is commonly applied in accounting and management research to capture latent constructs (Sekaran & Bougie, 2020) ^[12]. Secondary data are obtained from academic journals, books, and official publications to support the theoretical framework and discussion.

Accounting digital literacy is measured as the independent variable and is defined as the ability of MSME owners or managers to understand accounting principles and apply them through digital accounting tools. Measurement indicators are adapted from previous studies, including the ability to use accounting software, understanding of basic accounting concepts within digital systems, accuracy in recording transactions digitally, and the ability to generate financial reports using digital applications (Indra, 2025; Tanjung *et al.*, 2026) ^[9, 14]. Financial statement quality, as the dependent variable, refers to the degree to which financial reports provide accurate, complete, timely, and reliable information for decision-making purposes. Indicators used to measure this variable include accuracy, completeness, timeliness, consistency, and compliance with applicable accounting standards such as SAK EMKM (Hamzah & Rahmawati, 2024; Indra, 2025) ^[8, 9].

Data analysis is conducted using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. PLS-SEM is selected due to its suitability for predictive research, its ability to analyze complex models with relatively small sample sizes, and its robustness to non-normal data distributions (Hair *et al.*, 2022) ^[6, 7]. The analysis procedure consists of two main stages: evaluation of the measurement model and evaluation of the structural model. The measurement model is assessed through tests of convergent validity, discriminant validity, and construct reliability, while the structural model is evaluated by examining path coefficients, coefficients of determination (R^2), and hypothesis testing using a bootstrapping technique. The proposed hypothesis is accepted if the path coefficient is positive and statistically significant at a 5 percent significance level.

4. Research Results and Discussion

4.1. Results of Structural Model Analysis

The structural model evaluation using Partial Least Squares-Structural Equation Modeling (PLS-SEM) reveals a strong relationship between Digital Accounting Literacy and Financial Reporting Quality of MSMEs in Central Java. The path coefficient from Digital Accounting Literacy (X) to Financial Reporting Quality (Y) is 0.882, indicating a very strong and positive effect.

This result suggests that higher levels of digital accounting literacy among MSME owners or financial managers substantially improve the quality of financial statements produced. The magnitude of the coefficient far exceeds the minimum threshold commonly considered meaningful in PLS-SEM analysis (Hair *et al.*, 2022) ^[6, 7], implying that digital accounting literacy plays a dominant role in shaping financial reporting practices in MSMEs.

From a methodological perspective, PLS-SEM is particularly appropriate for exploratory and predictive research contexts involving MSMEs, where data distributions are often non-normal and sample sizes may be limited (Hair *et al.*, 2021) ^[5]. Therefore, the obtained coefficient demonstrates not only statistical relevance but also strong practical significance.

4.2. Discussion

The empirical finding confirms that digital accounting literacy is a critical determinant of financial reporting quality among MSMEs in Central Java. This aligns with the theoretical perspective that accounting information quality depends heavily on users' competence in applying accounting standards and digital tools effectively (DeLone & McLean, 2016; Susanto, 2019) ^[4, 13].

In the context of MSMEs, digital accounting literacy encompasses the ability to use accounting software, understand digital financial records, and interpret financial data accurately. MSME actors with higher digital literacy are more capable of producing financial reports that are relevant, reliable, comparable, and timely, which are the fundamental qualitative characteristics of financial information as outlined in international accounting frameworks (IASB, 2023) ^[10].

The strong influence observed in this study supports previous empirical evidence indicating that digital competence significantly enhances accounting accuracy and transparency in small business environments (Nguyen *et al.*, 2022; Widuri *et al.*, 2023) ^[11, 15]. However, this study extends prior research by focusing specifically on digital accounting literacy, rather than general digital literacy, thereby providing a more precise explanation of how technological capabilities translate into higher-quality financial reporting.

Furthermore, the findings are particularly relevant for MSMEs in Central Java, where digital transformation initiatives have accelerated, yet disparities in accounting competence remain evident. Without sufficient digital accounting literacy, MSMEs may underutilize accounting technologies, leading to incomplete or inaccurate financial reports that hinder access to financing and weaken managerial decision-making.

From a policy and practical standpoint, the results imply that government agencies, educational institutions, and professional accounting bodies should prioritize digital accounting training programs for MSMEs. Strengthening digital accounting literacy can serve as an effective strategy to improve financial transparency, enhance business sustainability, and support MSMEs' integration into formal

financial systems.

4.3. Implications of the Findings

Theoretically, this study reinforces the role of human capital and digital capability theory in accounting research by demonstrating that digital literacy is not merely a supporting factor but a core driver of accounting quality in MSMEs.

Practically, the strong path coefficient highlights that investments in digital accounting education and training may yield substantial improvements in financial reporting quality. For policymakers, this evidence supports the integration of digital accounting modules into MSME empowerment programs at the regional and national levels.

5. Conclusion and Suggestion

5.1. Conclusion

This study investigates the effect of Digital Accounting Literacy on the Financial Reporting Quality of MSMEs in Central Java using the PLS-SEM approach. The findings reveal that digital accounting literacy has a strong and positive influence on the quality of financial reporting. This indicates that MSMEs with higher levels of digital accounting competence are more capable of producing financial statements that are accurate, timely, reliable, and aligned with accounting standards.

The results contribute to the accounting and MSME literature by empirically confirming that digital accounting literacy constitutes a critical organizational capability rather than a supporting factor. By narrowing the focus from general digital literacy to accounting-specific digital competence, this study provides clearer insights into how digital transformation can enhance financial reporting quality in MSMEs.

5.2. Recommendations and Implications

From a practical perspective, the findings suggest that improving digital accounting literacy should be a strategic priority for MSME development programs. MSME owners and financial managers are encouraged to actively enhance their competencies in digital accounting applications to support better financial control and decision-making.

For policymakers and supporting institutions, the results imply the need for targeted digital accounting training initiatives integrated into MSME empowerment policies. Such programs may contribute to increased financial transparency, improved access to external financing, and stronger MSME sustainability.

Academically, higher education institutions and professional accounting bodies are advised to incorporate digital accounting literacy into their curricula and professional development programs to align accounting education with current technological advancements.

5.3. Limitations and Future Research

This study has several limitations that should be considered when interpreting the findings. First, the model includes a single independent variable, which may not fully capture the multifaceted determinants of financial reporting quality. Second, the cross-sectional research design limits causal inference over time. Future studies are encouraged to incorporate additional explanatory variables, employ longitudinal designs, or conduct comparative analyses across regions or MSME sectors to enhance the robustness and generalizability of findings.

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