

Analysis Of Financial Report Quality And Accounting Understanding On The Financial Performance Of Msmes With Competence As A Moderating Variable

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Abstract

This quantitative study aims to analyze the influence of financial statement quality and accounting understanding on the financial performance of Micro, Small, and Medium Enterprises (MSMEs), with competence serving as a moderating variable. The study was conducted on MSME owners in Majalaya District, Karawang Regency. The sampling technique used was purposive sampling, with a sample of 100 respondents determined using the Slovin formula from a population of 2,676 MSMEs. Data were collected through questionnaires and analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS 4.1. The results indicate that financial statement quality and accounting understanding have a positive and significant effect on MSMEs' financial performance. However, competence does not moderate the relationship between financial statement quality and financial performance, nor the relationship between accounting understanding and financial performance. These findings indicate that improving MSMEs' financial performance is primarily determined by the ability of business owners to prepare high-quality financial statements and understand accounting rather than by competence as a moderating variable.

Keywords: Financial Statement Quality, Accounting Understanding, Competence, MSMEs' Financial Performance.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a sector that plays a very important role in the Indonesian economy because of its significant contribution to improving community welfare, job creation, and national economic growth. (Al Farisi et

al., 2022)Indonesia's economy, based on GDP at current prices, reached Rp6,060.0 trillion and experienced economic growth of 1.43% quarter-on-quarter and 5.04% year-on-year. From the production side, several business sectors experienced positive growth, such as the manufacturing industry, which grew by 5.54%. Meanwhile, from the expenditure side, exports of goods and services grew by 9.91%.(BPS, 2025)In practice, MSMEs need to have an understanding of accounting and the ability to prepare and manage financial reports properly (Eltivia et al., 2023). Adequate quality financial reports will help business actors assess their financial condition and improve their business's financial performance (Mokodompit & Nugraeni, 2025). However, amidst increasing business competition and technological developments, many MSMEs still face challenges in financial management, particularly in systematic recording and preparation of financial reports (Syah et al., 2023).

The development of MSMEs in Karawang Regency has shown significant growth, particularly in Majalaya District. Based on data on the number of MSMEs in Majalaya District, there were 1,029 in 2023, increasing to 2,676 in 2024. These MSMEs comprised 59 small industries, 765 home industries, 1,357 trade units, and 495 service units (opendatajabar, 2025). The increase in the number of MSMEs indicates a fairly rapid growth in economic activity. However, this increase in the number of MSMEs has not been fully accompanied by an increase in the financial performance of these businesses. Furthermore, many MSMEs still do not regularly record financial reports and have relatively limited understanding of accounting and business management competencies (Sarif, 2023).

Based on the results of a pre-survey of 20 MSMEs in the culinary, fashion, trade, and service sectors in Majalaya District, researchers found several phenomena related to the quality of financial reports, accounting understanding, and business actors' competencies regarding MSME financial performance. Regarding the quality of financial reports, 10 out of 20 respondents did not have adequate financial reports and still recorded transactions simply. This condition indicates that some MSMEs do not understand the importance of preparing complete and systematic financial reports according to business needs. Furthermore, some business owners still mix personal funds with business funds, resulting in less organized financial records. Separating personal funds from business funds is important so that MSMEs can understand the financial condition of their businesses more clearly and accurately. Some business owners still do not manage their finances well, resulting in less than optimal financial report preparation. Knowledge about the quality of financial reports is crucial for MSMEs because good financial reports can help business owners understand business conditions and accurately assess their financial development (Setyawati & Hermawan, 2022).



Furthermore, regarding accounting understanding, 3 out of 20 respondents did not yet understand basic accounting concepts and were still recording their finances based on self-taught understanding. Seven out of 20 respondents had also never received training or counseling related to recording and preparing business financial reports. This condition indicates that some MSMEs still have limitations in understanding transaction recording and preparing financial reports in accordance with simple accounting principles. All respondents stated that understanding accounting is important to help their business's financial records become more organized. This means that MSMEs recognize that understanding accounting plays a crucial role in preparing financial reports and understanding the business's financial condition. Understanding accounting can help MSMEs better record and prepare business financial reports (Syarli & Al Sukri, 2025).

Furthermore, regarding the financial performance of MSMEs, 12 out of 20 respondents stated that their businesses experienced increased sales and profits in the past year. Sixteen out of 20 respondents also stated that they were able to pay business obligations on time, such as bills and other business needs. All respondents stated that good financial reporting and proper financial management can impact business results. This means that not all MSMEs experience the same improvement in their financial condition. MSME financial performance is influenced not only by increased sales, but also by the ability of business owners to prepare financial reports, understand accounting records, and manage business finances effectively (Dewi et al., 2022).

Furthermore, regarding the competency aspect of MSMEs, 9 out of 20 respondents stated that they still experience difficulties in managing their businesses and understanding business finances. Seven out of 20 respondents also admitted that they have not actively participated in training or activities that could improve their business skills. However, the majority of respondents stated that the ability to manage business and finances is very important for business development. This condition indicates that the competency of MSMEs still needs to be improved, especially in the ability to run and manage a business well. All respondents stated that good competency can help business owners understand financial conditions and make appropriate business decisions. This means that the competency of MSMEs plays a crucial role in the development and financial performance of their businesses. Competence plays a crucial role in supporting the ability of business owners to run their businesses (Wardhana et al., 2025).

Based on the gaps that exist in the field, there are still differences in the results of previous research regarding the influence of financial report quality on the financial performance of MSMEs (Sariningsih et al., 2025) shows that the quality of financial reports does not affect the financial performance of MSMEs. On the other hand, research (Febriyanti & Suhendi, 2025) shows that the quality of financial reports has a positive effect on the financial performance of MSMEs. Meanwhile, research (Eltivia et al., 2023).



This study shows that accounting understanding influences the financial performance of MSMEs. However, this study has not yet tested competency as a moderating variable.

There are differences in results between studies (Sariningsih et al., 2025) and (Febriyanti & Suhendi, 2025) this underlies the novelty of this research. Therefore, this study positions competency as a moderating variable to test whether competency can strengthen or weaken the influence of financial report quality and accounting understanding on the financial performance of MSMEs. Therefore, this study aims to analyze the influence of financial report quality and accounting understanding on the financial performance of MSMEs and examine the role of competency as a moderating variable in MSMEs in Majalaya District, Karawang Regency.

RQ1: How does the quality of financial reports affect the financial performance of MSMEs?

RQ2: How does accounting understanding affect the financial performance of MSMEs?

RQ3: How does competence moderate the influence of financial report quality on MSME financial performance?

RQ4: How does competence moderate the influence of accounting understanding on the financial performance of MSMEs?

LITERATURE REVIEW

Resource Based View(RBV)

The Resource-Based View (RBV) theory developed by Jay Barney (1991) explains that organizational excellence and performance come from the ability to manage internal resources that are valuable, rare, difficult to imitate, and well-organized (Andini et al., 2026). In this study, the quality of financial reports and accounting understanding are viewed as internal resources that support the provision of accurate financial information for business decision-making. Meanwhile, the competence of MSME actors acts as a moderating ability to utilize these resources, thereby strengthening or weakening their influence on financial performance (Ayem & Adestia, 2024). The implication is that the better the quality of financial reports and the better the understanding of accounting, the better the financial performance of MSMEs. However, this influence will be stronger if supported by high levels of business competency, as competency allows for more optimal use of financial information in business management. Conversely, if competency is low, the impact of financial report quality and accounting understanding on financial performance tends to be less than optimal (Indriasari & Kusuma, 2022).

Quality of financial reports

The quality of financial reports is the ability of reports to present accurate, relevant, reliable and easy-to-understand information so that it can be used as a basis for business



evaluation and planning (Ayuningtyas & Firsty, 2026). The quality of financial reports in MSMEs is influenced by accounting understanding and human resource competency. Good financial reports help business owners assess financial performance and improve decision-making accuracy (Krisnayanti & Masdiantini, 2025).

Understanding accounting

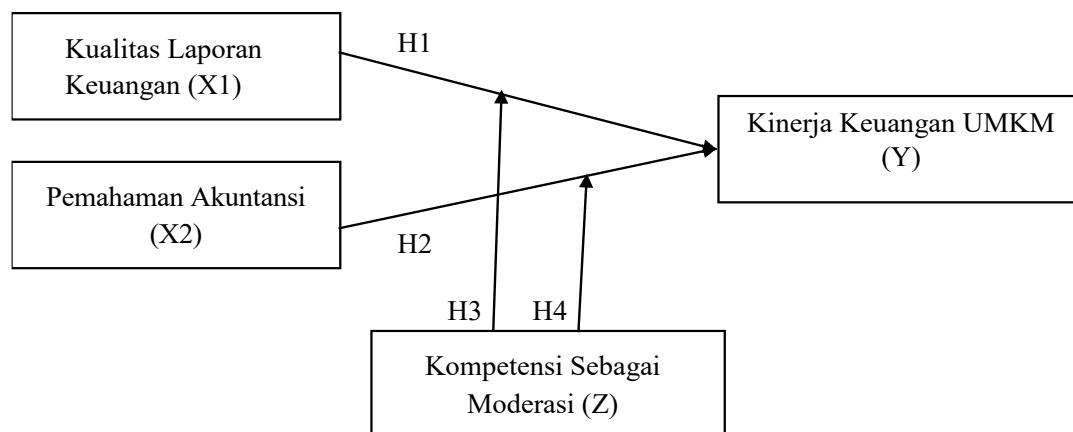
Accounting understanding is an individual's ability to understand and apply basic accounting concepts in recording and preparing financial reports, namely recording transactions correctly and using financial reports to manage a business (Hidayatullah & Rachmawati, 2024). In MSMEs, understanding accounting has a significant impact on the regularity of recording and the reliability of financial information, thereby helping financial management become more systematic and reducing the risk of recording errors (Mursyid & Yani, 2025).

Competence of MSME actors

MSME competencies are the abilities and skills of entrepreneurs in managing their businesses and finances effectively. These competencies support improved business management, the use of financial reports, and sound decision-making (Winarso & Kurniawati, 2022). MSMEs with high competencies tend to be more adaptive to changes in the business environment and are able to improve business performance sustainably (Santoso et al., 2022).

Financial performance of MSMEs

Financial performance reflects an MSME's ability to generate profits, maintain smooth cash flow, and use resources efficiently. Financial performance is a key indicator for assessing business success and sustainability (Destianty, 2026). The financial performance of MSMEs is influenced by the quality of financial information and the ability of business actors to manage finances effectively. MSMEs with good financial systems tend to have more stable and sustainable financial performance (Putu et al., 2022).

RESEARCH FRAMEWORK AND HYPOTHESIS**Framework****Figure 1. Framework of Thought****Research hypothesis****1. The influence of the quality of financial reports on the financial performance of MSMEs**

The quality of financial reports indicates how well they provide clear and accurate information about a business's condition. Well-prepared financial reports make it easier for MSMEs to assess profits, manage finances, and make informed decisions. This will help improve their financial performance. Based on the Resource-Based View (RBV), the quality of financial reports is a resource that can help improve business performance if used effectively. The quality of financial reports significantly impacts the financial performance of MSMEs. This means that the better the quality of financial reports, the better the MSME's financial performance (Arsjah et al., 2025).

H1: The quality of financial reports has a significant impact on the financial performance of MSMEs

2. The influence of accounting understanding on the financial performance of MSMEs

Accounting literacy is the ability of MSMEs to record transactions and prepare financial reports correctly. A strong understanding of accounting allows them to manage their finances more effectively, avoid errors, and clearly understand the business's condition. This will help improve their financial performance. Based on the Resource-Based View (RBV), accounting literacy is a crucial skill that, when utilized effectively, can

help improve business performance. Accounting literacy significantly impacts MSME financial performance, meaning that the higher a MSME's accounting literacy, the better their financial performance (Aullah et al., 2022).

H2: Accounting understanding has a significant impact on the financial performance of MSMEs

3. The influence of competence as a moderating variable in strengthening or weakening the relationship between the quality of financial reports and the financial performance of MSMEs

The relationship between financial reporting quality and financial performance is not always straightforward; the effectiveness of financial reporting is greatly influenced by the ability of MSMEs to use the information. When business owners possess high competency, they tend to be better able to read, understand, and interpret financial reports. Based on the Resource-Based View (RBV), competency is an internal resource that plays a crucial role in increasing the effectiveness of the utilization of other resources, including financial reports. High competency will strengthen the use of financial information in decision-making. Competence plays a crucial role in improving the quality of financial reporting, which ultimately impacts business performance. This suggests that competency can strengthen the relationship between financial reporting quality and financial performance (Farhan et al., 2024).

H3: Competence can strengthen or weaken the relationship between the quality of financial reports and the financial performance of MSMEs.

4. The influence of competence as a moderating variable in strengthening or weakening the relationship between accounting understanding and the financial performance of MSMEs

Understanding accounting will yield maximum results if MSMEs possess sufficient competency to implement it. Businesses with high competency will more easily apply accounting principles to their financial recording and reporting practices. Based on the Resource-Based View (RBV), competency is a key factor in maximizing the use of knowledge possessed by business actors. Understanding accounting as knowledge will be more effective if supported by competency in its application. Human resource competency influences MSME performance. This indicates that competency can strengthen the influence of accounting understanding on financial performance (Febriyanti & Suhendi, 2025).

H4: Competence can strengthen or weaken the relationship between accounting understanding and the financial performance of MSMEs.

RESEARCH METHODS

This study uses a quantitative approach to analyze the influence of the quality of financial reports and accounting understanding on the financial performance of MSMEs with competence as a variable moderation. The data used are primary data obtained through the distribution of questionnaires to MSMEs in Majalaya District, Karawang Regency. The study population was 2,676 MSMEs, with the minimum sample size calculated using the Slovin formula, resulting in 96.4 respondents, which were then rounded up to 100 respondents to facilitate the research. The sampling technique used purposive sampling with the following criteria: (1) MSMEs located in Majalaya District, Karawang Regency; (2) MSMEs that have been running their business for at least one year; (3) business owners or managers who are directly involved in business and financial management; and (4) MSMEs that record finances or prepare their business financial reports. Data were measured using a five-point Likert scale and analyzed using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method with the help of SmartPLS 4.1 software through testing the outer model, inner model, and path coefficient. The Slovin formula used is as follows:

$$\text{Formula: } n = \frac{N}{1+N(e)^2} = \frac{2.676}{1+2.676(0,10)^2} = \frac{2.676}{1+2.676(0,01)} = \frac{2.676}{1+26,76} = \frac{2.676}{27,76} = 96,4$$

Information:

n: sample size

N: population size

e: Margin of error or level of error tolerance

MRA linear equation

The data analysis in this study used the Moderated Regression Analysis (MRA) method. This method was used to determine the effect of financial report quality and accounting understanding on MSME financial performance, as well as to determine whether competency can strengthen or weaken this relationship.

The regression equation in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z) + e$$

Information:

- Y = Financial Performance of MSMEs
- α = Constant
- $\beta_1 - \beta_5$ = Regression coefficient
- X1 = Quality of Financial Reports
- X2 = Accounting Understanding



- Z = Competence
- $X1 \times Z$ = Interaction between financial report quality and competence
- $X2 \times Z$ = Interaction between accounting understanding and competency
- e = Error term or error rate

This equation shows that the financial performance of MSMEs is influenced by the quality of financial reports, accounting understanding, and the competence of business actors. Furthermore, competence also acts as a moderating variable, strengthening the relationship between financial report quality and accounting understanding on MSME financial performance. The better the competence of MSME actors, the stronger the influence of financial report quality and accounting understanding on financial performance.

RESEARCH RESULTS AND DISCUSSION

Research result

1. Validity test

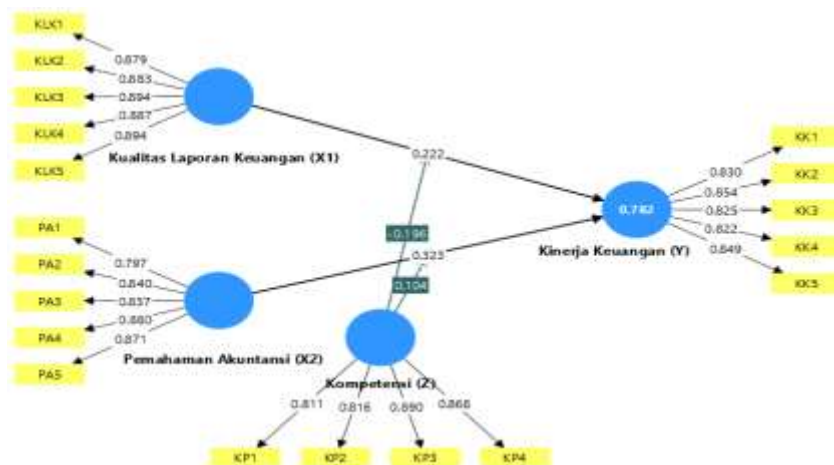


Figure 2. Outer Loading
Source: Processed by Researchers (2026)

Based on the results of the outer loading test using SmartPLS 4.1, all indicators in the variables of financial report quality, accounting understanding, competence, and financial performance of MSMEs have values above 0.70 so that all indicators are declared valid and suitable for use in research. The outer loading value on the financial report quality variable is in the range of 0.879-0.894, the accounting understanding variable is 0.797-0.880, the competence variable is 0.811-0.890, and the financial performance variable is 0.822-0.854.

2. Discriminant Validity

1. Fornell Lacker Criterion

Table 1. Fornell Lacker Criterion

	Kinerja Keuangan (Y)	Kompetensi (Z)	Kualitas Laporan Keuangan...	Pemahaman Akuntansi (X2)
Kinerja Keuangan (Y)	0.836			
Kompetensi (Z)	0.744	0.847		
Kualitas Laporan Keuangan (X1)	0.764	0.610	0.887	
Pemahaman Akuntansi (X2)	0.732	0.436	0.754	0.846

Source: Processed by Researchers (2026)

Based on the results of the Fornell-Larcker Criterion test, the square root of the Average Variance Extracted (AVE) value for each construct shows a value of 0.836 for financial performance, 0.847 for Competence, 0.887 for financial report quality, and 0.846 for accounting understanding. The square root value of AVE for each construct is higher than the correlation value between constructs, which are 0.744, 0.764, 0.732, 0.610, 0.436, and 0.754. These results indicate that all constructs have met the criteria for discriminant validity, so that each variable is able to adequately represent different concepts in the research model.

3. Reliability test

Table 2. Reliability Test

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Kinerja Keuangan (Y)	0.892	0.893	0.921	0.699
Kompetensi (Z)	0.868	0.874	0.910	0.717
Kualitas Laporan Keuangan (X1)	0.933	0.934	0.949	0.788
Pemahaman Akuntansi (X2)	0.901	0.926	0.926	0.715

Source: Processed by Researchers (2026)

Based on the results of the reliability test, it shows that all variables have a Cronbach's alpha value and composite reliability above 0.70. The financial performance variable has a Cronbach's alpha value of 0.892 and a composite reliability of 0.921. The competency variable has a Cronbach's alpha value of 0.868 and a composite reliability of 0.910. The financial report quality variable has a Cronbach's alpha value of 0.933 and a composite reliability of 0.949. The accounting understanding variable has a Cronbach's alpha value of 0.901 and a composite reliability of 0.926. Thus, all constructs are declared reliable.

Table 3. R-square

	R-square	R-square adjusted
Kinerja Keuangan (Y)	0.782	0.770

Source: Processed by Researchers (2026)

Based on the results of the coefficient of determination test, the R-square value for the financial performance variable was 0.782. This indicates that 78.2% of the variation in MSME financial performance can be explained by the variables of financial report quality, accounting understanding, competence, and moderating interactions in the research model. The remaining 21.8% is explained by other variables outside the research model.

Table 4. F-square

	Kinerja Keuangan (Y)	Kompetensi (Z)	Kualitas Laporan Keuangan (X1)	Pemahaman Akuntansi (X2)	Kompetensi (Z) x Pemahaman Ak...	Kompetensi (Z) x Kualitas ...
Kinerja Keuangan (Y)						
Kompetensi (Z)	0.425					
Kualitas Laporan Keuangan (X1)	0.065					
Pemahaman Akuntansi (X2)	0.172					
Kompetensi (Z) x Pemahaman Akuntansi (X2)	0.012					
Kompetensi (Z) x Kualitas Laporan Keuangan (X1)	0.039					

Source: Processed by Researchers (2026)

Based on the results of the effect size (f-square) test, the contribution of the impact of independent variables shows that the influence of competence on financial performance is in the large category ($f^2 = 0.425$), the influence of the quality of financial reports is in the small category ($f^2 = 0.065$), and the influence of accounting understanding is in the medium category ($f^2 = 0.172$). Meanwhile, the moderating interaction effect of Competence on the relationship between the quality of financial reports and financial performance has a value of ($f^2 = 0.039$) so it is included in the small category, while the relationship between accounting understanding and financial performance has a value of ($f^2 = 0.012$) so it is categorized as not having a significant interaction impact in the model.

4. Hypothesis testing

Table 5. Path Coefficient

	Original sample (O)	Sample mean (M)	Standard deviation (STD EV)	T statistics ([(O-M)/STD EV])	P values
Kompetensi (Z) → Kinerja Keuangan (Y)	0.410	0.407	0.074	5.505	0.000
Kompetensi (Z) x Kualitas Laporan Keuangan (X1) → Kinerja Keuangan (Y)	-0.196	-0.191	0.104	1.885	0.059
Kompetensi (Z) x Pemahaman Akuntansi (X2) → Kinerja Keuangan (Y)	0.104	0.100	0.088	1.180	0.233
Kualitas Laporan Keuangan (X1) → Kinerja Keuangan (Y)	0.223	0.223	0.100	2.211	0.037
Pemahaman Akuntansi (X2) → Kinerja Keuangan (Y)	0.323	0.327	0.074	4.363	0.000

Source: Processed by Researchers (2026)

Hypothesis testing in this study was conducted using the bootstrapping method in SmartPLS 4.1. The hypothesis is accepted if the t-statistics value is > 1.96 and p-values are < 0.05 .

1. Based on the results of the hypothesis testing on the moderation effect, the interaction between competence and financial report quality on MSME financial performance obtained an original sample value of -0.196, t-statistics of 1.888, and p-values of 0.059. The t-statistics value is smaller than 1.96 and p-values are greater than 0.05. Thus, H3 is rejected. These results indicate that competence is unable to moderate the relationship between financial report quality and MSME financial performance. This means that high or low competence of MSME actors does not strengthen or weaken the influence of financial report quality on MSME financial performance.
2. Based on the results of the hypothesis testing on the moderation effect, the interaction between competence and accounting understanding on the financial performance of MSMEs obtained an original sample value of 0.104, a t-statistic of 1.180, and a p-value of 0.238. The t-statistic value is smaller than 1.96 and the p-value is greater than 0.05. Thus, H4 is rejected. These results indicate that competence is unable to moderate the relationship between accounting understanding and the financial performance of MSMEs. This means that the level of competence of MSME actors does not affect the relationship between accounting understanding and the financial performance of MSMEs.
3. Based on the results of hypothesis testing, the relationship between financial reporting quality and MSME financial performance obtained an original sample value of 0.222, a t-statistic of 2.211, and a p-value of 0.027. The t-statistic value is greater than 1.96 and the p-value is less than 0.05. Thus, H1 is accepted. These results indicate that financial reporting quality has a positive and significant effect on MSME financial performance.
4. Based on the results of hypothesis testing, the relationship between accounting understanding and MSME financial performance obtained an original sample value of 0.323, a t-statistic of 4.363, and a p-value of 0.000. The t-statistic value is greater than 1.96 and the p-value is less than 0.05. Thus, H2 is accepted. These results indicate that accounting understanding has a positive and significant effect on MSME financial performance.

DISCUSSION

The influence of the quality of financial reports on the financial performance of MSMEs

The results of this study indicate that the quality of financial reports has a positive and significant impact on the financial performance of MSMEs. Well-prepared financial reports help MSMEs understand the financial condition of their businesses. By regularly recording income and expenses, business owners can determine the amount of revenue, costs incurred, and whether their business is making a profit or loss. This information can be used to evaluate business development. If a business experiences a loss, MSMEs can identify the cause and make improvements, such as reducing unnecessary costs or increasing sales. Conversely, if a business makes a profit, good strategies can be maintained or developed. Therefore, financial reports serve not only as records but also as a basis for making decisions to improve financial performance. Based on the Resource-Based View (RBV), the quality of financial reports is one of the resources owned by MSMEs. If utilized properly, financial reports can help MSMEs manage finances, develop business plans, control costs, and evaluate business results. This way, MSMEs can better manage their businesses, thereby improving financial performance (Anggriani & Inapty, 2025). The results of this study are in line with research (Arsjah et al., 2025) which states that the quality of financial reports has a positive impact on the financial performance of MSMEs. This is because quality financial reports provide accurate and relevant information, helping MSMEs evaluate business conditions and make informed decisions.

The influence of accounting understanding on the financial performance of MSMEs

These results indicate that accounting understanding has a positive and significant impact on the financial performance of MSMEs. A good understanding of accounting helps MSMEs better manage their business finances. MSMEs who understand how to calculate business profits can better understand the results obtained from their business. Furthermore, understanding the importance of financial record-keeping makes business owners more organized in recording every transaction that occurs. MSMEs also understand the importance of separating personal and business funds so that the use of business funds is clearer and not mixed. In addition, MSMEs realize that financial records can help business development because the available information can be used to evaluate business conditions and determine appropriate steps. The ability to record and manage financial transactions properly makes it easier for business owners to understand the financial condition of their business. Therefore, an understanding of accounting not only helps MSMEs in compiling and managing financial records but also serves as a basis for making appropriate business decisions that can improve financial

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performance. Based on the Resource-Based View (RBV), an understanding of accounting is one of the skills that MSMEs possess in managing their businesses. This ability is a crucial resource because it helps business owners manage finances more effectively. The better the understanding of accounting, the better the ability of MSMEs to make the right decisions so that they can improve financial performance (Trisnadewi & Dewi, 2023). The results of this study are in line with research (Aullah et al., 2022) which states that understanding accounting has a positive effect on the financial performance of MSMEs because business actors who understand accounting are able to manage their business finances better and utilize financial information as a basis for decision-making. Furthermore, research (Hidayatullah & Rachmawati, 2024) also shows that understanding accounting influences the financial performance of MSMEs because the ability to record and manage finances helps business actors understand the condition of their business and develop appropriate strategies to develop their business.

The influence of competence as a moderating variable in the relationship between the quality of financial reports and the financial performance of MSMEs

The results of this study indicate that competence is unable to moderate the relationship between the quality of financial reports and the financial performance of MSMEs. This means that although MSMEs possess sufficient competence, this competence is mostly used in carrying out business activities, such as marketing products and managing the business. Meanwhile, the ability to record financial transactions, such as recording income and expenses, is still minimal, so business actors need experience in running their businesses to have a greater influence on MSME financial performance. Based on the Resource-Based View (RBV), competence is a resource that can help improve the utilization of other resources. However, in this study, the competence possessed by MSMEs was not able to support the optimal use of financial reports. This indicates that MSMEs still need to improve their ability to understand and utilize the information contained in financial reports so that it can be used as a basis for making appropriate decisions (Novatiani et al., 2025). The results of this study are not in line with research (Farhan et al., 2024) which states that competency can strengthen the use of financial information to improve MSME performance. These differences in results indicate that the competency possessed by MSME actors is not sufficient to strengthen the relationship between financial report quality and financial performance if it is not accompanied by the ability to optimally utilize financial information.



The influence of competence as a moderating variable in the relationship between accounting understanding and the financial performance of MSMEs

The results of this study indicate that competency is unable to moderate the relationship between accounting understanding and MSME financial performance. This means that even though MSMEs have a good understanding of accounting, their competency is not yet fully capable of supporting the application of this understanding in managing business finances. Experience in running a business helps MSMEs understand how to run their businesses. The ability to manage finances and make financial decisions independently also helps in managing daily business activities. In addition, MSMEs continuously strive to improve their skills so that their businesses can grow. However, these skills have not been optimally utilized to apply accounting understanding in managing business finances. As a result, accounting understanding has not been able to provide a greater influence on improving MSME financial performance. Based on the Resource-Based View (RBV), competency is an internal resource that can leverage the benefits of other resources, including accounting understanding. However, in this study, competency was not able to support the optimal use of accounting understanding to improve financial performance. This indicates that MSMEs still need to improve their ability to apply accounting knowledge to business financial management practices to have a positive impact on financial performance (Periska, 2024). The results of this study are not in line with research (Febriyanti & Suhendi, 2025) which states that competence can strengthen the influence of accounting understanding on MSME performance. The differences in the results of this study indicate that the role of competence as a moderating variable is influenced by the ability of MSME actors to apply accounting knowledge to financial management practices and business decision-making.

CONCLUSION AND SUGGESTIONS

Conclusion

The quality of financial reports and accounting understanding have a positive and significant influence on the financial performance of MSMEs in Majalaya District, Karawang Regency. Well-prepared financial reports help MSMEs understand the financial condition of their businesses, enabling them to make more informed decisions. Furthermore, a good understanding of accounting facilitates MSMEs in managing their business finances, from recording transactions to preparing financial reports, thereby improving financial performance. On the other hand, competence is unable to moderate the relationship between financial report quality and financial performance or the relationship between accounting understanding and MSME financial performance. This indicates that improvements in financial performance are more influenced by the quality

of financial reports and accounting understanding, while competence has not yet provided any influence as a moderating variable.

Suggestion

MSMEs are expected to be more disciplined in recording their finances and preparing regular financial reports to ensure proper monitoring of their business's financial condition. MSMEs also need to continuously improve their understanding of accounting through training or mentoring to enable them to manage their business finances more effectively. The government or relevant agencies are expected to provide ongoing guidance and training on financial management and financial reporting for MSMEs. Future researchers are advised to add other variables suspected of influencing MSME financial performance and expand the research area and number of respondents to provide a more comprehensive picture.

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