Ekuitas: Jurnal Ekonomi dan Keuangan **p-ISSN 2548 – 298X**
Akreditasi No. 158/E/KPT/2021 **e-ISSN 2548 – 5024**
DOI: 10.24034/j25485024.y2024.v8.i3.6515

ENHANCING MSME FINANCIAL REPORTING IN EAST JAVA: THE ROLE OF MENTORSHIP

Eny Zuhrotin Nasyiah
Umi Nandiroh
uminandiroh@unisma.ac.id
Universitas Islam Malang

ABSTRAK

Pelaporan keuangan yang akurat dan tepat waktu sangat penting dalam manajemen keuangan yang efektif bagi UMKM, karena informasi keuangan yang jelas diperlukan dalam pengambilan keputusan. Penelitian ini bertujuan mengeksplorasi dinamika literasi keuangan, inklusi keuangan, dan pengaruh mentoring terhadap kualitas pelaporan keuangan UMKM di Jawa Timur. Dengan pendekatan kuantitatif, data dikumpulkan melalui survei terhadap 210 pemilik UMKM dari berbagai sektor industri dan tingkat usaha. Sampel dipilih secara acak untuk memastikan representativitas dalam analisis. Hasil penelitian menunjukkan adanya hubungan yang signifikan antara literasi keuangan, inklusi keuangan, mentoring, dan kualitas pelaporan keuangan UMKM. Tingkat literasi dan inklusi keuangan yang tinggi, didukung dengan mentoring yang baik, terbukti berkontribusi positif terhadap akurasi dan ketepatan waktu pelaporan keuangan. Penelitian ini memberikan pemahaman yang lebih mendalam mengenai pentingnya literasi keuangan, inklusi keuangan, dan mentoring dalam meningkatkan kualitas pelaporan keuangan UMKM di Jawa Timur. Temuan ini menawarkan dasar bagi pengembangan strategi yang lebih efektif untuk memperbaiki praktik pelaporan keuangan UMKM. Implikasi dari penelitian ini dapat membantu pembuat kebijakan dan lembaga keuangan dalam merancang program mentoring dan inisiatif literasi keuangan untuk meningkatkan transparansi, akuntabilitas, serta keberlanjutan bisnis UMKM.

Kata kunci: literasi keuangan, inklusi keuangan, mentoring, pelaporan kuangan, UMKM.

ABSTRACT

This study investigates how mentoring, financial inclusion, and financial literacy dynamics affect the calibre of financial reporting among East Javan MSMEs. Data was gathered quantitatively by surveying 210 MSME owners from various business levels and industrial sectors. Random sampling was used to guarantee the analysis's representativeness. The findings show a strong correlation between mentoring, financial inclusion, financial literacy, and the calibre of MSME financial reporting. Accuracy and timeliness of financial reporting were positively impacted by high financial literacy and inclusion and excellent mentoring. The findings highlight how crucial these elements are to improving the calibre of MSME financial reporting and providing insightful information to financial institutions and policymakers. As a result, improving MSME accountability, transparency, and overall financial management can be significantly assisted by specific measures, including financial literacy and mentorship programs. Stakeholders may help improve financial reporting procedures, which are critical to the long-term viability and expansion of MSME, by tackling these issues. This study addresses a foundation for developing more effective plans to improve MSME financial reporting in East Java and other areas.

Key words: financial literacy, financial inclusion, mentoring, financial reporting, MSMEs.

INTRODUCTION

Effective financial management depends on timely and accurate financial reporting, especially for micro, small, and medium-sized businesses (MSMEs). Clearly and understandably, providing information about income, expenses, assets, and liabilities guarantees accountability and openness in business operations (Perera et al., 2023; Vander Bauwhede et al., 2015). This accountability is crucial for creditors, investors, other stakeholders, and MSME owners. According to Mang'ana et al. (2023) MSME managers may evaluate business performance, prepare budgets, pinpoint areas for improvement, and make strategic decisions with the help of accurate and current financial data.

MSMEs can more efficiently plan and budget for the future when they have access to accurate historical financial data. For the future, such as long-term investment planning, budgeting for expenses, and income predictions (Fujibayashi et al., 2015). Above all, timely and correct financial reporting improves MSMEs' prospects of obtaining capital, including loans and investments (Sassi & Damak-Ayadi, 2023). When assessing credit risk or investment potential, lenders and investors look to dependable financial statements to show how financially sound a company is. However, many MSMEs need more resources or expertise in this area. Adequate financial reporting must improve their capacity to obtain money and other financial services.

Financial literacy significantly influences financial reporting practices in micro, small, and medium enterprises (MSMEs). Various studies indicate financial literacy impacts MSME owners' financial management behaviour (Hasanah et al., 2019). MSME owners with high financial literacy better understand the importance of accurate and timely financial reporting (Gačić et al., 2023). They recognize that financial reporting is not only regulatory compliance but also an important tool for internal analysis and decision-making (Emmanuel et al., 2014). Financial literacy allows MSME actors to understand financial information, manage finances well, and avoid financial problems that threaten business continuity (Yatim et al., 2016). In addition, financial literacy can also improve the ability to make financial decisions, strengthen performance, and empower MSMEs to find optimal funding sources (Jin et al., 2021).

Financial inclusion influences financial reporting practices in micro, small, and medium enterprises (MSMEs). Various studies show that financial inclusion can positively impact the performance and sustainability of MSMEs (Siddik & Kabiraj, 2018). Financial inclusion allows MSMEs to gain easier access to formal financial services, such as financing and banking services, which can improve economic stability and business performance (Aderemi et al., 2016). In addition, financial inclusion can also play a role in increasing transparency and accountability in MSME financial reporting practices (Brei et al., 2020). With better access to financial services, MSMEs can improve their financial reporting systems, the timeliness of reporting, and the quality of financial information presented.

Financial literacy is also related to the effect of financial inclusion on MSME financial reporting practices. Financial literacy can strengthen the relationship between financial inclusion and financial decisions, including financial reporting practices (Nketia et al., 2023). With good financial literacy knowledge, MSMEs can be more effective in utilizing available financial services and managing finances better. Financial literacy helps MSME owners manage assets and liabilities more effectively. It includes a better understanding of how to optimize assets, manage debt, and maintain liquidity.

Assistance is important in influencing the financial reporting practices of Micro, Small and Medium Enterprises (MSMEs). Assistance in financial literacy and management can improve understanding of financial concepts and reporting requirements among MSME owners and managers (Patel et al., 2022). Mentors can help MSMEs improve their financial literacy by providing guidance and support, which is important for accurate and transparent financial reporting. The mentoring relationship can facilitate the transfer of knowledge and skills related to financial management, including preparing financial statements and compliance with reporting standards.

Moreover, mentoring can facilitate the development of a culture of accountability and openness inside MSMEs (Palacín-Sánchez et al., 2022) Mentoring enables MSMEs to understand the significance of preserving precise financial records and adhering to regulatory regulations. Mentors can assist MSMEs in adopting optimal practices in financial reporting, thereby enhanceing their financial statements' reliability and fostering stakeholder confidence. Mentoring can assist MSMEs in effectively utilizing financial resources, essential for sustaining business operations and fostering growth (Costa et al., 2022) By obtaining help in financial decision-making and strategic planning, MSMEs can enhance their financial reporting systems to promote sustainability and long-term performance. In summary, mentorship significantly enhances financial literacy, fosters accountability, and optimizes financial resources, crucial factors that can positively impact MSME financial reporting procedures.

Given the above problems, researchers are interested in further examining how the influence of financial literacy and financial inclusion on MSME financial reporting practices is moderated by mentoring. The main objective of this study is to investigate whether mentoring can strengthen the influence of financial literacy and inclusion on MSME financial reporting practices. This research develops and validates a theoretical model that describes the relationship between financial literacy, financial inclusion, and financial reporting practices of MSMEs, with mentoring as a moderation variable. This model can be an important reference in future academic studies. This research can provide empirical evidence on the importance of financial inclusion for MSMEs, assisting governments and financial institutions in formulating policies that support broader financial inclusion.

Mentoring is a moderating variable in this study because it is considered to strengthen the influence of financial literacy and inclusion on MSME financial reporting practices. Mentoring provides the necessary guidance and support for MSME owners to understand complex financial concepts better and apply appropriate financial practices. With mentoring, MSMEs can more effectively overcome financial reporting challenges, thus improving financial statement accuracy and transparency. Additionally, mentoring helps instil good business ethics and fosters compliance with financial reporting standards, ultimately contributing to MSMEs' performance and sustainability. Therefore, mentoring is expected to moderate the relationship between financial literacy, financial inclusion, and MSME financial reporting practices.

THEORETICAL REVIEW

Resource Based Theory

According to Resource Based theory, an organization's competitive advantage stems from its capacity to efficiently manage and use its material and immaterial resources, including management skills, knowledge, and abilities (Yatim et al., 2016). This research posits that financial literacy, financial inclusion, and mentoring are essential resources that MSMEs can leverage to enhance the quality of their financial reporting (Stella et al., 2022).The Resource-Based View (RBV) underscores the best utilization of resources to generate additional value, including precision and transparency in financial reporting, thereby improving the performance and sustainability of Micro, Small, and Medium Enterprises (MSMEs). Therefore, this theory provides a strong conceptual framework for understanding how factors like financial literacy, financial inclusion, and mentoring contribute to better financial reporting practices among MSMEs.

Financial Literacy and Financial Reporting Practices in MSMEs

Financial literacy is generally defined as understanding and using various financial products and concepts. It includes knowledge of money management, budgets, investments, and financial risk (Ingale & Paluri, 2022). There are two components to financial literacy, namely cognitive and behavioural components. This aspect emphasizes understanding and knowledge of financial products, the basic principles of economics, and the ability to perform basic financial calculations. The behavioural component concerns the application of financial knowledge to everyday decision-making. It includes budgeting, saving, and investing (Ingale & Paluri, 2022).

Financial literacy is a person's ability to understand and use various financial concepts and products effectively. It includes knowledge of financial principles, products, and services and skills in making wise financial decisions. According to Yatim et al. (2016), individuals with a high level of financial literacy tend to understand better the financial information presented in financial statements, enabling them to analyze and interpret this information more effecttively. This understanding allows MSME managers to make better investment or financing decisions.

Financial literacy influences financial reporting practices in micro, small, and medium enterprises (MSMEs). Financial literacy is understanding and using various financial concepts and products effectively (Alharbi, 2023). Adequate financial literacy equips MSME owners with the skills to create financial statements, such as income statements, balance sheets, and cash flow statements. These skills help them track the financial performance of their business effectively. With financial literacy, MSME owners can better analyze and interpret financial data (Stella et al., 2022). It allows MSME managers to identify trends, assess the business's financial health, and make data-driven decisions.

Financial literacy also plays a crucial role in reducing bias in decision-making. Gilchrist et al. (2023) state that individuals familiar with financial concepts such as risk, return, and the time value of money tend to make more rational decisions, including when it comes to evaluating or compiling financial statements. This capability helps MSME managers assess the risks and performance of their businesses more accurately and identify hidden potential risk factors. Additionally, a better understanding of financial statements can positively influence perceptions of a company's credibility and integrity. Emmanuel et al. (2014) emphasize that companies that consistently present clear and trustworthy financial statements are more likely to gain greater stakeholder trust, including creditors.

Financial literacy helps MSME owners manage assets and liabilities more effecttively. It involves a better understanding optimizes, managing debt, and maintaining liquidity (Munyuki & Jonah, 2022). MSMEs can prepare themselves to grow with accountable financial reporting based on good financial literacy. Reliable and accurate financial statements are key to attracting investors and gaining access to additional capital. From this explanation, the hypothesis can be formulated as follows:

H_1: Higher financial literacy in MSME owners and managers significantly impacts better financial reporting practices in MSMEs.

Financial Inclusion and Financial Reporting Practices in MSMEs

In Small and Medium Enterprises (MSMEs), the impact of financial inclusion on financial reporting is quite large. Financial inclusion, which includes access to financial services and products, is important in improving the financial literacy of MSME owners and operators (Kuada, 2022). Studies have shown that increased financial literacy within a population leads to higher account ownership, especially in areas with lower financial understanding (Ibne Afzal et al., 2023). Its increased financial literacy empowers MSME agents to understand basic financial concepts, engage in better financial planning, manage finances effectively, and protect themselves from financial market risks and fraud (Kuada, 2022).

Financial inclusion refers to the availability and equality of access to financial services. For micro, small, and medium enterprises (MSMEs), financial inclusion is a critical factor that significantly influences financial reporting practices. Financial inclusion ensures that MSMEs have access to essential financial services such as savings, credit, insurance, and payment systems. According to Lu et al. (2020), increased financial inclusion allows MSMEs to manage their finances more efficiently and maintain accurate financial records, which are fundamental for creating reliable financial reports.

Financial inclusion makes accessing financial services such as credit, insurance, and savings products easier for MSMEs. This access is important to increasing their capacity to manage finances and make more accurate and detailed financial reports (Lu et al., 2020). With better financial literacy, MSME owners will be better able to manage business finances. The financial reporting can be done more accurately, reflecting the actual financial position of the business.

Access to various financial services plays a crucial role in enhancing the quality of financial reporting. With better access to banking services, MSMEs can streamline their financial transactions, ensuring that all income and expenses are properly recorded and accounted. Yao and Yang (2022) state that using modern banking services, such as digital banking and mobile money, helps MSMEs automate their financial record-keeping processes, thereby reducing errors and improving the accuracy of financial statements.

Financial inclusion promotes greater transparency and accountability in financial reporting. MSMEs integrated into the formal financial system are more likely to adopt standardized accounting practices and adhere to regulatory requirements. This integration encourages MSMEs to maintain transparent financial records, which is essential for building trust with investors, creditors, and other stakeholders. Siddik and Kabiraj (2018) highlight that financial inclusion fosters an environment where MSMEs are motivated to present clear and comprehensive financial reports, enhancing their credibility and reliability.

One significant benefit of financial inclusion is improved access to capital. MSMEs with comprehensive and accurate financial reports are better positioned to secure funding from banks, investors, and other financial institutions. Lu et al. (2020) emphasize that financial inclusion enables MSMEs to present solid financial data, which is crucial for obtaining loans and attracting investments. Access to capital allows MSMEs to expand operations, invest in new projects, and enhance their overall business performance.

Financial inclusion can increase transparency and accountability in financial reporting. MSMEs accustomed to the formal financial system are likelier to maintain good and transparent records. Financial inclusion is often related to the application of financial technology (Łasak, 2022). MSMEs that use fintech services can have a more efficient and accurate financial recording system. Good and accurate financial reporting is key to accessing additional capital through loans or investments. Financial inclusion helps MSMEs present solid financial data to attract investors or lenders. From this explanation, the hypothesis can be formulated as follows:

H_2: Good financial inclusion has a significant and positive impact on better financial reporting practices in MSMEs.

Mentoring and Financial Reporting Practices in MSMEs

As an integral part of the capacity building of Micro, Small and Medium Enterprises (MSMEs), mentoring plays an important role in improving the quality of financial reporting. Mentoring can provide basic knowledge about finance and accounting concepts to MSME owners. An understanding of the importance of financial reporting, how to prepare financial statements, and interpretation of financial data (Prawesti et al., 2023). Mentors can assist MSMEs in developing financial management skills, such as budgeting, financial planning, and cash flow analysis. These skills are crucial to ensure financial reporting reflects actual financial conditions (Goyal et al., 2018).

Mentors can provide guidance on good accounting practices and recognized financial reporting standards. This helps MSMEs comply with relevant regulations and reporting standards (El-Dyasty & Elamer, 2023). Mentoring can help develop or improve efficient and accurate financial reporting systems, which are essential for business decision-making and performance appraisal. Mentors can guide MSMEs in adopting financial technology (fintech) solutions, such as accounting software, which can simplify the recording and financial reporting (Hasanah et al., 2019).

Mentoring is also important in strengthening business ethics and compliance with financial regulations. It helps MSMEs understand the importance of transparency and accuracy in financial reporting. Mentors provide ongoing support and assist MSMEs in adjusting their financial strategies in line with business developments and changing market conditions (Islam et al., 2023). Using mentoring as a moderation variable in this study allows for a deeper exploration of how and why mentoring affects financial reporting and can provide insight into improving financial reporting practices among MSMEs (Prawesti et al., 2023). From this explanation, the hypothesis can be formulated as follows:

H_3: Mentoring significantly strengthens the positive impact of financial literacy on better financial reporting practices in MSMEs.

H_4: Mentoring significantly strengthens the positive impact of financial inclusion on better financial reporting practices in MSMEs.

Conceptual Framework

The conceptual framework of this study is designed to explain the relationships between key variables that influence the improvement of MSME financial reporting practices, namely financial literacy, financial inclusion, and mentoring. Financial literacy and financial inclusion are crucial factors impacting the quality of financial reporting. At the same time, mentoring is a moderating variable that strengthens the influence of these two factors. This framework helps to understand how the interaction between these variables can significantly impact the accuracy and transparency of MSME financial reporting. The conceptual framework in this study is depicted in figure 1.

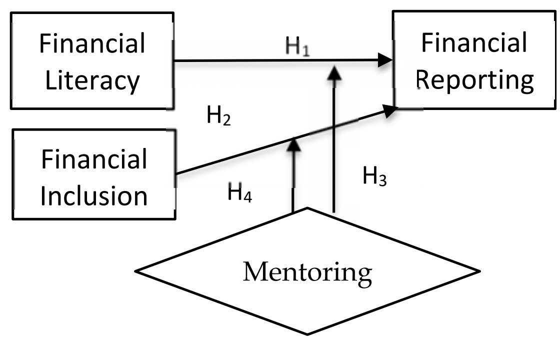

Figure 1
Conceptual framework
Source: Data processed, 2024

RESEARCH METHODS

This study used quantitative methods with primary data sources. The sample of this study amounted to 210 MSME owners in East Java assisted by Bank Syariah Indonesia (BSI). A sample of BSI-assisted MSMEs was chosen. BSI provided mentoring programs consistently for its assisted MSMEs, which created an environment where mentoring variables could be most explored more controllably and systematically. It made possible to evaluate its impact of mentoring in a more specific and measurable way. The data source in this study was primary data in the form of questionnaires directly with measurements using a Likert scale of 1-5. The scores given to each answer were Strongly Agree (SS) with a value of 5, Agree (S) with a value of 4, Neutral (N) with a value of 3, Disagree (TS) with a value of 2, Strongly

Disagree (STS) with a value of 1. All respondents' answers that had been collected were tested for validity and reliability. Data analysis in this study used the moderate regression analysis method with SPSS software.

Table 1
Descriptive Statistics

	Min	Max	Mean	Std. Deviation
X1	3	5	4.2733	.49672
X2	2	5	4.4800	.45518
Y	3	5	4.4253	.38488
Z	4	5	4.8000	.33642

Source: Data processed, 2024

ANALYSIS AND DISCUSSION

In this current research, the data were obtained from 210 East Java MSME players who received funding from Bank Syariah Indonesia. The sample was randomly selected. Respondents' answers were collected, tabulated, and processed with statistical software. The following is a presentation of the results of descriptive statistical analysis (Table 1).

The average financial literacy score is 4.2733, which indicates that financial literacy scores tend to be high in general. The average financial inclusion score is 4.4800, which is higher than financial literacy and indicates that respondents generally perceive a better level of financial inclusion. The average financial reporting rate is 4.4253, indicating that respondents have a good level of financial reporting.

In the research context, an analysis provides basic insights into the distribution of scores for each variable. It can be very useful in understanding the basic dynamics between financial literacy, financial inclusion, financial reporting, and the role of mentoring. Before performing further analysis, such as hypothesis testing or regression models, it is important to consider these statistical ADA because they can provide information about the data distribution and whether the variables have a normal distribution or are possible outliers.

Testing using the Moderated Regression Analysis method is a multiple linear regression analysis that uses moderation variables. This study used a moderation variable that is mentoring. Moderated Regression Analysis is used to see the effect given by a moderation variable and whether it will moderate the influence of the independent variable on the dependent variable. Here are the results of the Moderated Regression Analysis test (Table 2).

Based on table 2, the relationship between the independent variable and the dependent variable moderated by mentoring (Z) can be formulated in the following equation:

$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ (X1{*}Z) + \beta 4\ (X2{*}Z)$

$Y = \alpha + (-1.651)\ X1 + 0.090\ X2 + 0.036\ (X1{*}Z) + (-7.675)\ (X2{*}Z)$

Table 2
Moderated Regression Analysis

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	42.252	.665		63.510	<,001
Financial Literacy	-1.651	.037	-1.279	-44.461	<,001
Financial Inclusion	.090	.036	.075	2.517	.014
X1.Z	.036	.001	1.952	56.300	<,001
X2.Z	-7.675E-5	.001	-.002	-.062	.951

a. Dependent Variable: financial reporting
Source: Data processed, 2024

Table 3
Simultaneous test results of ANOVAa

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1085.702	4	271.426	1812.236	<,001b
	Residual	10.484	205	.150		
	Total	1096.187	209			

a. Dependent Variable: Financial Reporting.
b. Predictors: (Constant), X2.Z, Financial literacy, financial inclusion, X1.Z.
Source: Data processed, 2024.

Table 4
Hypothesis test results of coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	42.252	.665		63.510	,010
Financial literacy	.651	.037	.279	44.461	,011
Financial inclusion	.090	.036	.075	2.517	.014
X1.Z	.036	.001	.952	56.300	,012
X2.Z	.675	.001	.002	.062	.951

a. Dependent Variable: Financial Reporting
Source: Data processed, 2024

Next, a simultaneous test (F test) is performed to test whether the independent variable affects the dependent variable simultaneously. The statistical tool used for simultaneous testing in this study is the ANOVA Test, which has a significance value of < 0.05. The results of simultaneous tests are presented in the following (table 3).

Based on table 3, it is known that the F value is calculated at 181.236 with a significance value of F 0.001. The significance value of F 0.001 < 0.05 shows that financial literacy, financial inclusion, mentoring, the interaction of financial literacy with mentoring, and the interaction of financial inclusion with mentoring have a significant effect on financial reporting. The results of the hypothesis test can be presented in the following table.

From Table 4, the results of the hypothesis test can be interpreted as follows.

The Effect of Financial Literacy on Financial Reporting

Statistical analysis indicates that financial literacy serves as a significant predictor. Financial literacy significantly affects financial reporting, aligning with the findings of (Gačić et al., 2023; Jin et al., 2021; Krische, 2019).Financial literacy denotes an individual's capacity to comprehend and effecttively utilize diverse financial concepts and products. It encompasses an understanding of financial principles, products, and services and the ability to make informed financial decisions.

Yatim et al. (2016) indicate that individuals possessing high financial literacy are more adept at comprehending the financial information contained in financial statements. So MSME managers can analyze and interpret information more effectively, leading to improved investment and financing decisions.

Gilchrist et al. (2023) stated that good financial literacy helps reduce bias in decision-making. Individuals familiar with financial concepts such as risk, return, and the time value of money tend to make more rational decisions, including when it comes to evaluating or compiling financial statements. Financial literacy assists individuals in assessing the risks and performance of companies reported in financial statements. MSME managers can identify hidden potential risk factors and interpret financial performance more accurately (Thathsarani & Jianguo, 2022).

Emmanuel et al., (2014) underlined that a better understanding of financial statements can affect individual perceptions of the company's credibility and integrity. Companies that consistently present clear and trustworthy financial statements tend to gain greater trust from stakeholders, including creditors.

Understanding the significant impact of financial literacy on financial reporting practices is crucial for developing MSMEs. Stakeholders such as governments, financial institutions, and non-governmental organizations can leverage this knowledge to design and implement programs that enhance financial literacy among MSME owners and managers. These programs can ultimately lead to better financial reporting, increased access to capital, and improved overall business performance and sustainability.

By improving financial literacy, MSMEs can better navigate financial challenges, make informed decisions, and present accurate and reliable financial information to stakeholders. The improvement can foster greater transparency and accountability that are essential for building trust and securing financial support.

The Effect of Financial Inclusion on Financial Reporting

The results of the hypothesis test show that financial inclusion has a significant effect on financial reporting. The results validate the research of Eton et al. (2021) and Brei et al. (2020). Thus, financial inclusion refers to broader and more inclusive access to financial products and services, especially for those who previously had no or limited access. In the context of financial reporting by Micro, Small and Medium Enterprises (MSMEs), financial inclusion has a significant impact.

Lu et al. (2020) stated that financial inclusion provides greater access for MSMEs to financial products and services that support the preparation of better financial statements. For example, they can obtain banking services such as savings, credit, and electronic banking services that facilitate recording financial transactions. Confirmed by Yao & Yang, (2022). With financial inclusion, MSMEs can use modern banking and financial services that help record transactions more structured and automatedly. It allows for preparing more accurate and detailed financial statements, and recorded financial transactions are an important basis for proper financial reporting.

Financial inclusion encourages MSMEs to adhere to better accounting standards as they become part of a more structured financial system. Thus, MSMEs tend to pay more attention to transparency and openness in financial reporting because this is important in building trust with other parties, such as investors, creditors, and business partners (Siddik & Kabiraj, 2018). Financial inclusion allows MSMEs to access more diverse and affordable sources of financing, such as bank loans, venture capital, or capital markets. Thus, MSMEs can expand their business and increase operational capacity, affecting the quality and scope of financial statements (Lu et al., 2020).

These findings have significant practical implications for policymakers and practitioners. Governments and financial institutions should focus on creating policies and programs that enhance financial inclusion for MSMEs. By providing access to a broad range of financial services, they can help MSMEs improve their financial reporting practices. These initiatives can include promoting digital financial services, offering financial literacy programs, and providing incentives for MSMEs to adopt formal financial systems.

In conclusion, financial inclusion plays a vital role in enhancing the quality of financial reporting among MSMEs. It provides MSMEs the necessary tools and resources to manage their finances effectively, maintain transparent records, and access capital. The significant positive impact of financial inclusion on financial reporting underscores the need for continued efforts to promote financial inclusion. By ensuring that MSMEs have access to essential financial services, stakeholders can support the development of accurate and reliable financial reporting practices, ultimately contributing to the growth and sustainability of MSMEs.

The Effect of Financial Literacy on Financial Reporting Moderated Mentoring

The hypothesis test show that mentoring strengthens the influence of financial literacy on financial reporting. It indicates that through guidance and support from mentors, MSMEs can improve their ability to understand and apply correct financial principles in preparing financial statements. Mentors can provide a deeper understanding and practical examples and guide MSMEs in overcoming obstacles they may face in financial reporting (Hasanah et al., 2019).

Mentoring enhances the effect of financial literacy on financial reporting among MSMEs. Through mentoring, MSME owners receive personalized guidance and support from experienced mentors who help them understand complex financial concepts and apply them effectively in their businesses. Hasanah et al., (2019) indicate that mentors can provide practical examples and real-world applications of financial principles, making it easier for MSME owners to grasp and implement these concepts in their financial reporting practices.

Mentoring provides MSME owners with hands-on training and practical guidance, which are crucial for improving their financial literacy. Mentors can assist in developing essential financial skills, such as budgeting, financial planning, and cash flow management. The practical support ensures that MSME owners can create accurate and comprehensive financial reports. According to Prawesti et al. (2023) mentoring helps MSMEs adopt the best financial management and reporting practices, leading to more reliable and transparent financial statements.

Mentoring involves a more experienced expert providing guidance and support to less experienced individuals or organizations. In the context of MSMEs, mentoring can be in the form of guidance related to financial management, preparation of financial statements, and understanding of financial concepts (Prawesti et al., 2023).

Mentoring provides MSME owners with hands-on training and practical guidance, which are crucial for improving their financial literacy. Mentors can assist in developing essential financial skills, such as budgeting, financial planning, and cash flow management. This practical support ensures that MSME owners can create accurate and comprehensive financial reports. According to Prawesti et al. (2023) mentoring helps MSMEs adopt the best financial management and reporting practices, leading to more reliable and transparent financial statements.

Mentoring also helps build the confidence and competence of MSME owners in managing their finances. With the support of mentors, MSME owners are more likely to engage actively with financial information, ask questions, and seek clarification on complex issues. This proactive approach enhances their financial literacy and improves the quality of their financial reporting. Palacín-Sánchez et al. (2022) emphasize that mentoring fosters a culture of continuous learning and improvement, essential for maintaining high standards in financial reporting.

These findings have important implications in the context of MSME development. By understanding that mentoring can strengthen the influence of financial literacy on financial reporting, stakeholders such as governments, financial institutions, and non-governmental organizations can take steps to increase MSME access to quality mentoring programs in finance. It can help improve the overall quality of MSME financial statements, which in turn can support the growth and sustainability of their business.

The findings have substantial practical implications for the design and implementation of MSME support programs. Stakeholders should consider incorporating mentoring components into financial literacy initiatives to maximize their impact. By providing MSMEs with access to experienced mentors, support programs can ensure that MSME owners acquire financial knowledge and develop the skills and confidence needed to apply this knowledge in their financial reporting practices. The comprehensive approach can significantly improve the quality and reliability of MSME financial reports.

In conclusion, mentoring plays a crucial role in moderating the effect of financial literacy on financial reporting among MSMEs. It provides personalized guidance, practical support, and opportunities for continuous learning, all of which enhance the financial literacy of MSME owners. The significant positive impact of mentoring on the relationship between financial literacy and financial reporting underscores the importance of integrating mentoring into financial literacy programs. By doing so, stakeholders can support the development of accurate and transparent financial reporting practices, ultimately contributing to the growth and sustainability of MSMEs.

The Effect of Financial Inclusion on Financial Reporting Moderated Mentoring

Statistics show that mentoring weakens the effect of financial inclusion on financial reporting. This finding contrasts with El-Dyasty & Elamer, (2023) research, which states that mentoring can increase financial inclusion, increasing MSME awareness of the importance of financial reporting. These findings highlight the importance of paying attention to the complex relationship between mentoring, financial inclusion, and financial reporting by MSMEs.

There are several potential explanations for this finding. One is that mentoring may focus more on other aspects of financial statement preparation, such as the use of information technology, risk management, or business strategy, rather than on financial inclusion. This can result in a lack of attention to the importance of MSME access to formal financial services in financial reporting (Patel et al., 2022).

Mentoring can play a crucial role in enhancing the impact of financial inclusion on financial reporting practices among MSMEs. Mentoring involves providing guidance, support, and knowledge transfer from more experienced individuals or organizations to less experienced MSME owners. This support can be particularly valuable in helping MSMEs navigate the complexities of financial management and reporting. According to Prawesti et al. (2023), mentors can assist MSME owners in understanding financial concepts, utilizing financial services effectively, and adhering to best practices in financial reporting.

Through mentoring, MSME owners can develop stronger financial management skills essential for accurate and transparent financial reporting. Mentors can provide practical advice on budgeting, financial planning, and cash flow management, helping MSMEs to maintain detailed and accurate financial records. This guidance is critical in ensuring that MSMEs can leverage financial inclusion to improve their reporting practices. Patel et al. (2022) highlight that mentoring can help MSMEs implement efficient financial systems and processes, thereby enhancing the quality of their financial reports.

Mentoring can also enhance MSMEs' access to financial services by giving them the knowledge and confidence to engage with formal financial institutions. Mentors can guide MSME owners through applying for loans, managing bank accounts, and utilizing digital financial services. Increased access to financial services, facilitated by mentoring, can lead to more accurate and comprehensive financial reporting. El-

Dyasty & Elamer, (2023) emphasize that mentoring can bridge the gap between MSMEs and financial institutions, ensuring that MSMEs fully benefit from financial inclusion initiatives.

The study results have important implycations for designing effective mentoring programs for MSMEs. Mentoring service providers need to note that focusing on certain aspects of preparing financial statements can unintentionally impact MSME financial inclusion. Therefore, a holistic and integrated approach that includes both financial literacy and financial inclusion in the guidance and support provided to MSMEs is needed.

The findings have significant practical implications for MSME development. Stakeholders, including governments, financial institutions, and non-governmental organizations, should consider integrating mentoring programs into their financial inclusion initiatives. By providing MSMEs access to experienced mentors, they can ensure that MSMEs maximize the benefits of financial inclusion, leading to improved financial reporting practices. These mentoring programs should focus on building financial management skills, enhancing access to financial services, and promoting best practices in financial reporting.

In conclusion, mentoring plays a vital role in moderating the effect of financial inclusion on financial reporting among MSMEs. It provides MSME owners with the guidance and support to utilize financial services effectively and maintain accurate financial records. The significant positive impact of mentoring on the relationship between financial inclusion and financial reporting underscores the importance of integrating mentoring programs into financial inclusion initiatives. By doing so, stakeholders can support the development of reliable and transparent financial reporting practices among MSMEs, ultimately contributing to their growth and sustainability.

CONCLUSIONS AND SUGGESTIONS

This research concludes that Micro, Small, and Medium-Sized Enterprises (MSMEs) in East Java must accurately and timely record their financial information. Accurate financial reporting ensures accountability and transparency, serving as a foundation for decision-making among MSME owners, investors, creditors, and other stakeholders. Current financial information enables MSME managers to assess business performance, formulate budgets, pinpoint areas for enhancement, and make informed strategic decisions. Accurate historical financial data enables MSMEs to plan future budgets more effectively, including income, expenditure, and investment projections.

The paper concludes that financial literacy and inclusion dynamics significantly impact MSME financial reporting in East Java, particularly through the moderation of mentoring. Effective financial reporting is essential for MSMEs in managing finances and making informed decisions that contribute to business growth.

Therefore, MSMES needs to pay attention to this aspect of financial reporting to improve its market performance and competitiveness. These insights offer valuable implications for policymakers and financial institutions to develop targeted interventions, such as mentorship programs and financial literacy initiatives, to strengthen financial reporting practices among MSMEs. By addressing these factors, stakeholders can enhance MSME transparency and accountability, contributing to improved financial management and business sustainability.

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This study has several limitations that should be considered for further studies. First, the data used is limited to MSMEs in the East Java region, which may restrict the generalizability of the findings to other regions with different economic characteristics. Second, the study employs a quantitative approach relying on questionnaires, which could introduce respondent bias, such as the tendency to provide socially desirable or overly positive responses. Third, the moderation variable of mentoring is explored without accounting for variations in the quality or intensity of mentoring received by different MSMEs.

Future researchers are advised to broaden the scope of their work by considering more variables that may impact East Javan MSMEs' financial reporting. Research may encompass external factors, including government regulations about MSME financial reporting, local market conditions, and economic trends influencing financial reporting practices.

In addition, future researchers may conduct a comparative study between MSMEs that adopt effective financial reporting practices and those that do not assess the impact on business performance and the growth of MSMEs. It offers a deeper understanding of the significance of precise financial reporting for MSMEs. Researchers may enhance their studies by incorporating a broader and more representative sample of MSMEs across diverse industrial sectors in East Java. It offers a more thorough understanding of MSME financial reporting practices in the region.

Finally, further research is advised to deepen the analysis of mentoring factors with MSME financial reporting. Next studies can delve deeper into how mentoring can moderate the relationship between financial literacy and MSME financial reporting practices and its impact on overall MSME business performance.

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