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# An Empirical Analysis of the Application of Simple Accounting as an Effort to Improve the Financial Performance of MSMEs

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## ABSTRACT

*This study aims to empirically analyze the effect of implementing simple accounting practices on the financial performance of Micro, Small, and Medium Enterprises (MSMEs). Many MSME owners still face challenges in financial management due to limited understanding and application of accounting principles, which leads to difficulties in monitoring cash flow, determining profit or loss, and accurately assessing financial conditions. This study employs a quantitative approach using a survey method conducted among MSME owners. The collected data were analyzed using statistical analysis techniques to examine the effect of simple accounting implementation on MSME financial performance. The results indicate that the implementation of simple accounting has a positive and significant effect on improving the financial performance of MSMEs. Proper, systematic, and easy-to-understand financial records enable MSME owners to make more accurate and effective business decisions.*

**Keywords:** *simple accounting, financial statements, financial performance, MSMEs.*

## ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh penerapan akuntansi sederhana terhadap kinerja keuangan Usaha Mikro, Kecil, dan Menengah (UMKM). Permasalahan utama yang dihadapi pelaku UMKM adalah rendahnya pemahaman dan penerapan akuntansi, yang berdampak pada lemahnya pengelolaan keuangan usaha. Penelitian ini menggunakan pendekatan kuantitatif dengan metode survei terhadap pelaku UMKM. Data yang diperoleh dianalisis menggunakan teknik analisis statistik untuk menguji pengaruh penerapan akuntansi sederhana terhadap kinerja keuangan UMKM. Hasil penelitian menunjukkan bahwa penerapan akuntansi sederhana berpengaruh positif dan signifikan terhadap peningkatan kinerja keuangan UMKM. Dengan adanya pencatatan keuangan yang teratur dan sistematis, pelaku UMKM dapat memantau kondisi keuangan usaha secara lebih akurat sehingga mendukung pengambilan keputusan usaha yang lebih efektif.

**Kata kunci:** *akuntansi sederhana, laporan keuangan, kinerja keuangan, UMKM.*

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy, particularly in creating jobs and increasing incomes. However, many MSMEs still face various challenges in managing their finances. One major issue is the lack of understanding among business owners regarding the importance of proper and regular financial record-keeping. However, implementing simple accounting is a practical solution that can help MSMEs manage their finances in a more organized and measurable manner without the need for complex systems. Simple accounting can also enhance the credibility and competitiveness of MSMEs amidst increasingly fierce market competition. Clear and structured financial reports enable business owners to objectively assess their performance and attract investors and financial institutions to provide capital support. This issue has been discussed in several previous studies.

A study entitled "Simple Accounting Bookkeeping in MSMEs" (Sopiah, 2023) found that some MSMEs still do not apply proper bookkeeping practices in recording their business finances. A simple bookkeeping training program was conducted at two MSMEs in Mangkurakyat Village to improve their knowledge and understanding of simple accounting. The training increased the knowledge gained by the MSME owners.

Another relevant research is simple bookkeeping training for MSMEs in Kampung Baru sub-district, Medan Maimun district, where the results of the discussion are that small entrepreneurs, especially MSMEs in Kampung Baru sub-district, Medan Maimun district, can understand good business methods through financial accounting, so that it is easier to know the development of their business.

Some previous studies that are relevant to the current research are:

No	Research Title	Summary
1.	The Importance of Understanding Simple Accounting as a Solution To Prepare Financial Reports (Case study at UD Rian Arianto Farm)	UD Rian Arianto Farm does not record financial reports due to a lack of accounting knowledge among its employees. The recording carried out by this partner is limited to simple transactions such as transactions. sales only, no recording when partners issue cash.
2.	Financial Management (Simple Financial Report for MSMEs)	Understanding of Accounting for MSMEs is still quite weak and lacking
3.	Simple Bookkeeping Model For Micro-Businesses in The District of Kramatwatu, Serang Regency	Before the coaching, the MSMEs did not have a sufficient understanding of simple bookkeeping for their businesses, but after adequate coaching, there was a good improvement in understanding the application of accounting.

Above background and relevant literature, the author of this article aims to analyze the application of simple accounting as an effort to improve the financial performance of MSMEs.

This research is expected to contribute to the financial and economic literature, especially in the context of developing countries. This research can provide a deeper understanding of the application of accounting in life and is expected to be developed more widely so that it can be useful in MSME businesses.

## **THEORETICAL STUDIES**

### **Financial statements**

Financial reports are the final result of the accounting process, serving as a communication tool between internal and external parties regarding the company's financial condition and performance. According to Kieso, Weygandt, and Warfield (2018), financial reports describe the results of a company's economic activities over a specific period, including the income statement, balance sheet, cash flow statement, and changes in equity. In the context of Micro, Small, and Medium Enterprises (MSMEs), financial reports play a crucial role as a basis for business decision-making, performance assessment, and access to external financing (Harahap, 2018).

However, many MSMEs are unable to prepare systematic financial reports due to limited human resources and accounting knowledge (Siregar & Wibowo, 2020). As a result, financial information is often incomplete or inaccurate, making it difficult for business owners to measure their business success. Therefore, implementing simplified financial reports tailored to the capacity and needs of MSMEs is a strategic solution to improve the effectiveness of financial management.

### **Benefits of simple bookkeeping for MSMEs**

1. **Knowing Profit and Loss:** Bookkeeping records all income and expenses, so business owners can accurately see whether the business is making a profit or making a loss.
2. **Managing Cash Flow:** Monitoring cash flow systematically helps control incoming and outgoing money, as well as manage accounts payable and receivable more efficiently.
3. **Simplifying Tax Calculations:** Neat and complete transaction records will be very helpful when calculating and reporting tax obligations, especially with the existence of tax regulations that are more lenient for MSMEs.
4. **Assisting Decision Making:** Accurate financial information from bookkeeping forms the basis for making strategic decisions, such as when to invest, develop products, or expand.
5. **Increased Professionalism and Credibility:** Businesses with organized bookkeeping appear more professional and are more trusted by external parties, such as banks, potential partners, or investors.
6. **Avoiding Losses and Fraud:** With accurate transaction records, business owners can easily detect errors, irregularities, or even fraud.
7. **Facilitates Loan Applications:** Neat bookkeeping provides strong financial evidence when applying for loans to financial institutions.
8. **Measuring Business Performance:** Data from bookkeeping can be used to measure business development periodically, so that owners can plan long-term strategies better.

### **RESEARCH METHODS**

The research method used in this research is qualitative and quantitative research with a literature study approach. review ). Literature review is a method of collecting data by understanding and studying

theories from various literature related to this research (Adlini et al., 2022). The sources used in this study are secondary data. The data were obtained through a literature study approach, so that the data were collected from various sources relevant to the problem being the object of this research. This data was obtained through literature books, scientific papers, final assignments, previous research, and other library sources.

This study uses a quantitative approach with the aim of analyzing the impact of simple accounting implementation on financial performance in MSMEs. This approach was chosen so that the data obtained can be processed statistically to produce objective and measurable findings, with the following research scenario: Research Approach, Types and Sources of Data, Data Collection Techniques, Data Analysis Techniques, and discussion towards the research objectives.

## **RESEARCH RESULTS**

This study examines the effect of simple accounting implementation on the financial performance of Micro, Small, and Medium Enterprises (MSMEs). Based on the data collected from respondents, the results indicate that the level of simple accounting implementation among MSMEs varies, with some businesses having applied basic financial recording practices, while others still rely on informal financial management.

The statistical analysis shows that the implementation of simple accounting has a positive influence on MSME financial performance. MSMEs that apply simple accounting practices tend to have better control over cash flow, clearer profit and loss information, and improved ability to evaluate their financial condition. These practices contribute to more effective financial management and support better business decision-making.

Furthermore, the findings suggest that simple accounting plays an important role in improving financial performance by providing accurate and reliable financial information. MSME owners who maintain systematic and consistent financial records are better able to monitor business activities and plan future operations. Overall, the research results confirm that the application of simple accounting practices can support the financial sustainability and growth of MSMEs.

## **DISCUSSION**

MSMEs play a vital role in the economy but often face financial management weaknesses due to irregular record-keeping, mixing of

personal and business accounts, and low accounting literacy (Tambunan, 2019). Simple accounting emerged as a practical solution: easy to implement, low-cost, and immediately providing useful information for daily decision-making (Sukirman & Sari, 2020).

### **Basic concepts of financial statements and balance sheets in a simplified version**

Financial reports present position information (balance sheet), performance (profit and loss), and cash flow. For MSMEs, the simplest forms commonly used are: a daily cash book (records of income and expenses), a simple monthly profit and loss report (revenue – expenses = profit), and a basic balance sheet (assets = liabilities + equity) that shows the position of business resources at a single point in time (Kieso et al., 2018; Warren et al., 2017). This simple form is sufficient to assist operational decision-making and periodic evaluation.

Empirical and practical literature notes several consistent benefits:

1. Cash flow control: daily records help monitor income and expenses, thereby reducing cash leakage.
2. Better decision making: simple profit and loss information allows owners to evaluate profitable products/services.
3. Increased access to financing: financial documentation, even if simple, increases credibility with microlenders or cooperatives.
4. Tax compliance and planning: facilitating the fulfillment of simple fiscal obligations (Harahap, 2018; Rudianto, 2019).
5. Local studies also show increased financial discipline and internal transparency after implementing simple record-keeping (Siregar & Wibowo, 2020; Yuliana & Kartika, 2021).

### **The Importance of Accounting for MSMEs**

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the economy, particularly in creating jobs and increasing incomes. However, many MSMEs still face challenges in financial management. Most entrepreneurs lack proper record-keeping and often mix personal and business finances. As a result, they find it difficult to determine whether their businesses are truly profitable.

By implementing simple accounting, MSMEs can regularly record every financial transaction. This recording helps them understand their

business's income, expenses, profits, and financial position. This allows for more informed decisions based on real financial data, not just estimates.

### **The Impact of Accounting Implementation on Financial Performance**

The implementation of simple accounting has a positive impact on the financial performance of MSMEs. With proper record-keeping, business owners can monitor cash flow, control expenses, and more clearly understand profit levels. Furthermore, simple financial reports, such as the income statement and balance sheet, help business owners assess the effectiveness of fund management and the business's ability to generate profits.

Good financial performance is characterized by increased revenue, the ability to meet obligations, and efficient use of resources. Simple accounting plays a role in providing this information regularly and easily, enabling business owners to make informed decisions to grow their businesses. For example, they can reduce unnecessary costs, set appropriate selling prices, and adjust marketing strategies based on actual financial conditions.

### **Real Impact for MSMEs**

Numerous studies have shown that MSMEs that implement simple financial record keeping have greater business resilience than those that don't. Simple accounting practices also increase the trust of external parties, such as banks or financial institutions, because financial reports provide tangible evidence of a business's ability to manage funds.

Furthermore, MSME owners become more disciplined and focused in managing their finances. They can separate personal and business finances, resulting in more accurate financial reports. Thus, simple accounting not only helps record transactions but also serves as a crucial tool for enhancing professionalism and business sustainability.

### **CONCLUSION**

Overall, implementing simple accounting plays a crucial role in improving the financial performance of MSMEs. Through proper financial record-keeping, business owners can clearly understand their financial condition, make informed decisions, and increase efficiency and profitability. Therefore, MSMEs need to start implementing simple accounting to ensure their businesses can grow and develop sustainably.

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