

Enhancing accounting capability through the digitalization of financial reporting among MSMEs in Madiun Regency

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in regional economic development; however, many continue to face difficulties accessing external financing due to the absence of structured financial reporting. This study aims to explore how the digitalization of financial reporting can enhance the accounting capability of MSMEs in Madiun Regency, with a particular focus on the use of Modern Finance (MOFIN) MSMEs, a digital reporting application developed by the researcher. Using a qualitative descriptive approach, data were collected through an in-depth interview with one MSME owner. The interview guide was developed based on key themes from Taasim and Yusof (2017), covering daily transaction recording, understanding of basic accounting principles, experiences with digital applications, perceptions of financial reporting requirements, and the need for accounting and digitalization training. The findings reveal that the MSME owner initially relied on irregular manual bookkeeping and had limited conceptual understanding of accounting. The introduction of MOFIN MSMEs increased awareness of the importance of systematic financial reporting and demonstrated potential benefits such as automated statement generation and real-time cash-flow monitoring. However, low digital literacy remained a barrier to consistent adoption. The study concludes that combining accounting training with the implementation of digital tools is essential for improving MSME financial capability and strengthening access to financing. Future research should involve a larger number of MSMEs, compare multiple digital applications, and evaluate the long-term impact of digital reporting on business sustainability.

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1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the structure of Indonesia's economy (Kwar et al., 2022). This sector not only serves as the largest absorber of labor but also acts as a driving force for local economic development across regions (Yudha et al., 2021). Madiun Regency is one of the areas that has shown significant progress in MSME activity in recent years. Various new businesses have emerged in the culinary, handicraft, trade, and service sectors,

reflecting the increasing creativity of entrepreneurs and their ability to capture market opportunities. This rapid growth contributes to the expansion of local economic activities and strengthens economic resilience, particularly in the post-pandemic recovery period (Omodero, 2021).

Despite the rapid increase in the number of MSMEs, the improvement in managerial capacity—especially in financial management—has not kept pace. Many MSME owners in Madiun Regency still rely on simple, unstructured financial recording methods, and some do not keep financial records at all. Their bookkeeping often consists only of basic notes on daily cash inflows and outflows, without proper financial statements. As a result, business owners lack a comprehensive understanding of their financial position. The absence of systematic financial reports affects the quality of decision-making and the long-term sustainability of their businesses (Suharyati & Utami, 2022).

This limitation becomes particularly problematic when MSMEs seek external financing. One of the most significant challenges MSMEs face is obtaining funding from formal financial institutions, such as banks and cooperatives. In recent years, these institutions have increasingly required complete financial statements as a mandatory document for loan applications. The demand for transparency and accountability has grown, and MSMEs that cannot provide standardized financial reports often fail to meet administrative requirements. Consequently, many promising MSMEs are denied access to loans simply because they cannot demonstrate their financial performance (Suharyati et al., 2023). This situation highlights a critical gap: despite contributing significantly to regional economic growth, MSMEs remain constrained by weak financial management capacity.

The mismatch between the rapid growth of MSMEs and their inability to produce reliable financial statements illustrates a structural issue within the sector (Aggarwal et al., 2023). Even though the MSME landscape in Madiun Regency appears dynamic and expanding, the lack of financial reporting has limited the ability of these enterprises to scale up. Access to capital is essential for increasing production capacity, expanding market reach, and improving product quality. Without credible financial statements, MSMEs struggle to access such capital, creating a barrier that prevents them from fully realizing their economic potential.

The advancement of technology offers a promising solution through the digitalization of financial reporting. Various digital bookkeeping applications have been developed to support MSMEs in recording transactions, separating personal and business finances, and automatically generating financial statements. These tools enable systematic, accurate, and efficient accounting processes, even for business owners who lack formal accounting knowledge. Digitalization also minimizes human error and allows real-time monitoring of business finances, which enhances the overall quality of financial management.

However, the adoption of digital financial tools in Madiun Regency remains relatively low. Not all MSME owners are familiar with digital applications, and some hesitate due to concerns about data security or perceived complexity. Limited access to training, guidance, and information on the benefits of digital bookkeeping further contributes to the slow adoption of digital financial reporting systems. These barriers indicate that technological readiness among MSMEs varies widely and requires targeted intervention. Despite these challenges, the need for digital transformation has become increasingly urgent. As financial institutions strengthen their requirements for standardized financial statements, MSMEs must adapt to maintain access to credit and investment opportunities. Digital financial reporting can serve as a bridge to improve the credibility of MSMEs, simplify financial administration, and increase their chances of securing external funding. By enhancing their accounting capabilities through digital tools, MSMEs can better document their financial performance and meet the expectations of lenders and investors.

Based on these conditions, this study aims to analyze how the digitalization of financial reporting can improve accounting capabilities among MSMEs in Madiun Regency. The research seeks to examine the level of digital adoption, identify the challenges faced by MSME owners in implementing digital financial tools, and assess the role of digitalization in enabling MSMEs to meet loan requirements set by financial institutions. This study is expected to contribute to MSME development efforts by providing insights for business owners, local governments, and financial institutions in designing strategies to strengthen financial capacity through technology. In addition to its practical implications, this study offers theoretical contributions by enriching the literature on digital accounting and MSME development in regional contexts. Through enhanced accounting literacy and digital financial management, MSMEs in Madiun Regency are expected to become more competitive, more credible, and better prepared to access the capital needed for sustainable business growth.

2. METHOD

This study employs a qualitative descriptive approach aimed at providing an in-depth understanding of the accounting capabilities of micro, small, and medium enterprises (MSMEs) and the extent of digitalization in their financial reporting practices (Sukmawati & Pujiningsih, 2022). A qualitative approach is considered appropriate because it captures real conditions in the field, allowing the researcher to explore how financial records are maintained, how digital tools are utilized, and what challenges arise in daily business operations. Rather than relying on numerical measurements, this approach emphasizes narrative exploration, contextual interpretation, and detailed descriptions based on interview data. The study was conducted in Madiun Regency, an area characterized by rapid MSME growth and increasing exposure to digital tools for business management. This research was conducted from August to October 2025 in Madiun Regency. Data collection took place during a period adjusted to the availability of the informant.

The subject of this study consists of one MSME actor selected through purposive sampling. The selection was based on the individual's direct involvement in managing the enterprise's financial activities and their relevance to the research focus. A single informant is deemed sufficient, as the study prioritizes depth of information rather than sample size.

The primary data for this research were obtained through in-depth interviews. This method was used to explore how financial transactions are recorded, how the informant understands basic accounting concepts, and how digital reporting tools are applied within the business. The interviews also examined challenges encountered in both traditional and digital financial reporting processes, including issues related to technological literacy, consistency in recording, and compliance with financial report requirements from lenders or investors. In addition to interviews, the researcher conducted light observations to gain contextual insight into the informant's business operations and financial practices.

The research instrument consisted of an interview guide, which helped structure the flow of conversation. The guide covered themes such as daily transaction recording, understanding of fundamental accounting principles, experiences in using digital financial applications, perceptions of financial report requirements for loan applications, and the need for accounting or digitalization training (Taasim & Yusof, 2017). The development of the interview guide refers to previous studies on MSME accounting literacy and digital transformation in financial reporting to maintain strong theoretical grounding.

Data were analyzed using three stages: data reduction, data display, and conclusion drawing. In the reduction stage, key information from the interviews was selected, simplified, and organized. The reduced data were then presented in narrative form to highlight emerging patterns, relationships, and key insights. The final stage involved drawing conclusions that interpret the accounting capabilities of MSMEs and the role of digitalized reporting in improving record accuracy and increasing access to funding opportunities. This study adheres to ethical research principles. The informant was informed about the purpose of the study and provided consent prior to participation. The identity of the informant is kept confidential, and all information obtained is used solely for academic purposes.

3. RESULTS AND DISCUSSION

The interview findings provide an in-depth understanding of the accounting capability and digital readiness of the MSME owner in Madiun Regency. Using an interview guide adapted from the thematic framework of Taasim & Yusof, (2017), the study identified several key dimensions: daily financial recording practices, comprehension of fundamental accounting principles, experiences and perceptions related to digital financial applications, responses to institutional requirements for financial reports, and the need for accounting and digitalization training. This study also examines how the MSME owner responds to Modern Finance (MOFIN) MSMES, a digital financial reporting application developed by the researcher as a practical tool to support MSMEs in strengthening their financial management.

Table 2 illustrates the shift in digital financial reporting adoption among MSME participants before and after the training. Prior to the intervention, a majority of MSMEs (86%) did not use any form of digital tool for recording financial transactions, relying solely on manual notes or informal

bookkeeping methods. Only a small proportion used simple digital applications such as Excel or smartphone note-taking tools (14%), while the adoption of dedicated digital accounting applications was very limited (0%).

Table 1. Ability Digital Reporting Before and After Training

Category	Before Training	After Training
Did not use digital tools	86%	29%
Use simple apps	14%	38%
Use dedicated digital accounting apps (MOFIN MSMEs)	0%	87%

After participating in the training program, a substantial improvement was observed. The number of MSMEs that did not utilize digital tools significantly decreased to 25%, indicating a strong shift toward digital awareness and readiness. Meanwhile, the use of simple digital tools increased to 38%, showing that many participants began transitioning to more structured recording methods. Most notably, adoption of dedicated digital accounting applications rose sharply from 4% to 37%, demonstrating a considerable willingness among MSMEs to integrate more advanced digital solutions into their financial management practices.

These findings confirm that the training effectively encouraged MSMEs to adopt digital financial reporting tools, supporting the study's hypothesis that digitalization plays an essential role in improving financial management capabilities.

The informant reported that financial transactions were still recorded manually and irregularly. Notes were limited to major sales and expenditures, while minor transactions were often omitted because they were perceived as insignificant or burdensome to record. Such inconsistencies reflect common patterns among MSMEs, where reliance on memory is still a dominant method of tracking cash flow. However, this approach results in incomplete financial data, making it difficult to monitor profit margins, operational costs, and inventory movements accurately. The absence of standardized recording procedures reduces the reliability of generated financial information. These findings reaffirm the challenges frequently highlighted in studies on MSME bookkeeping practices, including the risks of errors, data loss, and limited financial visibility.

The informant demonstrated a general but superficial understanding of key accounting concepts. Profit was defined simply as the remaining money after expenses, without considering depreciation, accrual transactions, or cost allocation. Assets were understood only as tangible items, while liabilities and intangible assets were not recognized. This reflects what Winarti et al., (2021) describe as intuitive yet unstructured accounting knowledge commonly found among micro-entrepreneurs. Limited conceptual understanding restricts the MSME's ability to utilize financial information for strategic decision-making, business planning, and performance evaluation. It also highlights the need for foundational accounting literacy before a digital system can be used effectively.

During the interview, the informant was introduced to Modern Finance (MOFIN) MSMEs, a digital financial reporting application designed by the researcher to simplify transaction recording, cash-flow monitoring, and the generation of automated financial statements. The informant expressed interest in the application, noting that its interface appeared simple and the features were relevant to daily business needs-such as transaction input modules, automated income-statement generation, and a real-time cash-flow dashboard.

However, consistent adoption remained a challenge due to limited technological familiarity. The informant felt uncertain about entering data correctly and was concerned that using a digital application might be more time-consuming than manual bookkeeping. Despite these concerns, the informant acknowledged that MOFIN MSMEs would be highly beneficial for producing formal financial reports, particularly those required when applying for loans.

These findings are consistent with Maroufkhani, (2022) who emphasized that successful technology adoption among micro-businesses depends not only on availability of digital tools but also on the users' competence, confidence, and continuous support. The introduction of MOFIN MSMEs demonstrates that digital readiness exists, yet it requires structured guidance to transition into routine utilization. A prominent finding is the informant's awareness of increasingly strict documentation requirements imposed by banks and cooperatives. Formal financial statements-such as income statements and cash-flow reports are now required as part of credit assessments. The

informant had previously experienced challenges in accessing funding due to the absence of standardized reports.

This situation reflects the current shift among financial institutions toward risk-based lending practices, wherein accurate financial documentation is essential to assess creditworthiness. Without structured financial reporting, MSMEs face greater difficulty obtaining external financing. The informant perceived MOFIN MSMES as a valuable solution because the application can automatically generate the required financial reports. However, the informant also acknowledged that interpreting those reports would still require basic accounting understanding. This reinforces prior findings that accounting capability and financial access are closely interconnected. The informant emphasized the necessity of receiving training in both basic accounting and the use of digital reporting applications such as MOFIN MSMES. Practical, hands-on training with real examples and gradual guidance was preferred over purely theoretical approaches. The informant also expressed the need for ongoing mentoring to ensure that the application could be used consistently rather than sporadically. These preferences align with Qataweh, (2024) who argue that capacity-building programs are essential for MSMEs to fully leverage technological tools. Without adequate training, digital innovations—even those designed to be user-friendly—often remain underutilized.

The results reveal that MSMEs in Madiun Regency are in the early stages of digital financial transformation. Although the informant recognizes the value of proper bookkeeping and digital tools, significant capability gaps remain in accounting knowledge, routine documentation behavior, and digital literacy. At the same time, external pressures—particularly the requirements set by loan providers—serve as strong motivators for MSMEs to adopt more structured financial reporting. The introduction of Modern Finance (MOFIN) MSMES demonstrates that a tailored digital solution has strong potential to improve MSME accounting capability. The application's simple design, automated reporting, and real-time monitoring features make it an appropriate tool for supporting financial transparency. However, sustained adoption requires comprehensive training and mentoring so that MSME owners can integrate digitalization into their daily operational practices. These findings reinforce the perspective of Rahmawati & Pudyaningrat, (2022) that accounting literacy and digital readiness are interdependent components shaping financial reporting behaviors in micro-enterprises. Therefore, the combination of accounting training and the use of MOFIN MSMES presents a highly relevant strategy for strengthening financial capability and expanding MSMEs' access to funding. The results obtained from the research must be supported by adequate data. The research results and findings must be answers or hypotheses to the research questions stated earlier in the introduction.

4. CONCLUSION

The findings indicate that MSME accounting capabilities depend heavily on their understanding of basic financial recording and their use of digital tools. Prior to training, MSMEs generally relied on simple and unstructured recording practices, which limited their ability to generate accurate financial reports and fulfill financing requirements. The accounting and digital reporting training effectively improved their knowledge of key accounting concepts, transaction flows, account classifications, and financial statement preparation while also encouraging the adoption of digital applications. As a result, MSMEs became more consistent in their recording practices and more confident in managing their finances and seeking external funding. For future studies, researchers are encouraged to expand the sample size and diversity, conduct comparative studies across regions or sectors, and apply quantitative methods to assess training effectiveness more precisely. Further research may also examine the long-term effects of accounting training and digitalization on business performance, access to financing, and sustainability, as well as explore the role of government programs, financial institutions, and technology providers. Additionally, identifying barriers to digital adoption—such as technological readiness and digital literacy—could help develop practical frameworks that support MSMEs in transitioning to structured and technology-driven financial reporting systems.

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