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The Influence of Company's Age and Owner's/Manager's Education on the Use of Accounting Information in Small and Medium Enterprises

ALFIAN ¹, MURTI GALUH TRESNA ²

¹ University of Lambung Mangkurat, Banjarmasin, South Kalimantan, Indonesia

² Polytechnic LP3I Bandung, Bandung, Indonesia

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THE INFLUENCE OF COMPANY'S AGE AND OWNER'S/MANAGER'S EDUCATION ON THE USE OF ACCOUNTING INFORMATION IN SMALL AND MEDIUM ENTERPRISES

ALFIAN¹, MURTI GALUH TRESNA^{2*}¹ University of Lambung Mangkurat, Banjarmasin, South Kalimantan, Indonesia² Polytechnic LP3I, Bandung, Bandung, Indonesia**Keywords:**Company's Age
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Accounting Information
SMEs**Received:** 22 December 2016**Accepted:** 03 February 2017**Published:** 15 April 2017

Abstract. This study was undertaken to find out if the company's age and owner's/manager's education has the influence on the use of accounting information. A total of 60 SMEs were selected from 409 SMEs in industrial t-shirt centre Bandung, West Java, Indonesia. Two sets of questionnaires were constructed. The responses to the questionnaires were complemented with personal interviews of the key operators by the researcher. The responses of the participants were analyzed using the Statistical Package for Social Sciences (SPSS). The main hypotheses of this research were tested at 0.05 level of significance, primary data were collected, and the data already tested in terms of their reliability and validity. Finally, the author found some evidence that the older the company's age, the more is the use of the accounting information in SMEs and more educated an owner/manager is, the more is the use of accounting information in SMEs.

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INTRODUCTION

SMEs have become the backbone of the economy of Indonesia and ASEAN. Approximately 88.8 to 99.9% establishment in ASEAN are SMEs. President of Indonesia, Joko Widodo stated that SMEs have high durability and will be able to sustain the country's economy, even during a global crisis and has an important contribution in the Indonesian economy (lisuBisnis.com, 2016), SMEs in 2016 contributed close to 59% of Gross Domestic Product (GDP) and it has increased from 2012 as much as 56.92%, equivalent to Rp. 1,213.25 Trillion. Central Statistics Agency also shows that in 2012 SMEs had a proportion of 99.99% of the total businesses in Indonesia or as many as 56.534 million units (BPS, 2013).

Besides that, employment growth in Indonesia is helped by the presence of SMEs, employing 107.657 million workers, growth of worker was as much as 5.83 in 2012, absorbing workers as much as 97.305 in the year 2014. This helps maintain the household income during the economic crisis and helps in poverty reduction in Indonesia as stated in Rodriguez and Sandee (2001); BPS (2013); OxfordBusinessGroup.com (2016); lisuBisnis.com (2016). SMEs are the economic sector that is able to survive in conditions of global crisis (Mappigau & Salim, 2013). SMEs provide a greater role than large firms in the economy, one reason why SMEs have a low dependence on the formal market and the credit that allows them to survive in a difficult economic situation (Rodriguez & Sandee, 2001). Asian Development Bank report on 2012 said behind the bril-

liant achievement as indicated by the presence of SMEs, it is identified that there are several problems faced by SMEs, the important role of SMEs is not reflected as direct or indirect exporters in global market networks, just 63% of SMEs in Indonesia are identified in global market networks, while in Vietnam 21.4% and 46.2% in Malaysia. The problem for SMEs is not having sufficient collateral for financing (OxfordBusinessGroup.com, 2016). President of Indonesian Marketing Association also said the main problem facing SMEs in Indonesia to become independent and move forward is a factor of knowledge in business and marketing (Marketeters.com, 2015). Another phenomenon about the obstacles in SMEs was said by Silmi as a creative team of Smesco after conducting a focus group discussion with 250 SMEs found the problems of the SMEs, which in addition to the financial problems was knowledge of business (Marketeters.com, 2015).

Motik, chairman of HIPPI - a bond of indigenous entrepreneur Indonesia expressed a similar statement. She said in fact the SMEs still have problems that must be solved. Such as, the inability or no access for traders of SMEs to financial institutions in obtaining information about capital. Then there is lack of knowledge regarding the marketing strategy and intellectual rights (BeritaSatu.com, 2013). Those problems faced by SMEs were far below requirements to become a formidable entrepreneurial SME, the Secretary of the Ministry of Cooperatives and SMEs In Indonesia, Muharam, said that there

*Corresponding author: Murti Galuh Tresna

†Email: galuh.tresna@yahoo.com

are five requirements, knowledge, skill, network, opportunity & mental attitude (BeritaSatu.com, 2016). SMEs have been growing, but largely obscure in financial affairs. Human resources have been the main cause. Many entrepreneurs are not too concerned because the businessman's finances do not use the role of accountants in business.

Information generated by the accounting information system is indispensable for SMEs to make decisions (Holmes & Nicholas, 1989). Accounting information can be used to reveal the company's financial information that is useful to management in decision making to the problems of the company, and can be used to make a variety of projections, i.e. the projections of cash, cost control, measure and improving productivity and providing support for the production process (Kaplan & Johnson, 1987); It became the unfortunate thing because financial processes are not clear. On the other hand, the financial statements are indispensable in terms of taxation. When an attempt to enroll in a government licensing was made, then there will be a number of taxes to be paid by the business. Most seriousness for SMEs is in terms of financing. These entrepreneurs usually borrow money from the bank. Loan capital is usually required by some of the documents that must be collected. For example, a Tax Identity Numbers (TIN). While TIN can be made in case the entrepreneur has the financial statements. It had been the cause of at least entrepreneurs to borrow money to raise capital (KEI UKM FEB UNS, 2015). Most SMEs in Indonesia do not use accounting in business management.

Nowadays most of the SMEs continue keeping their books with improper accounting and reporting. The implementation of accounting bookkeeping to provide informative financial statements remains difficult for SMEs.

Financing remains a constraint because of the difficulty of the requirements for bank credit for SMEs such as feasibility, bank accounts for three months should be good in terms of the presence of collateral and duration of business. The fact that many SMEs are actually having the business that is very feasible, but is not considered bankable only because of the collateral or the age of the company. Indeed there is bank credit for SMEs but this credit scheme set interest is still very high for SMEs, especially the newly started businesses. This phenomenon was told to us as another barrier for developing the SMEs' business in the company's age in order to get the banks financing (KabarBisnis.com, 2014).

Prior studies about the accounting information application on SMEs, namely Prafeep, Samuel and Esllyn (2014); Azizi and King (2007); Kemp, et al. (2015); Reddaway, Goodman and Graves (2011); Holmes and Nicholas (1989) revealed weakness in accounting information application in SMEs caused by

things; a majority of the SMEs' owners were found to lack interpretation skills and an awareness of how to use information from financial statements.

Limited SMEs' leaders (managers and/or owners) regard projection of cash important to make good decision for business. Besides the lack of knowledge of owners/managers of SMEs in accounting practices, some studies found the relationship among the company's age and the use of accounting information in SMEs, namely Kamyabi and Devi, (2011); Murti, Sumarni and Juwita, (2015); Dhiaa and Khalaf (2016); Marwata (2001) has found that the company's age has a positive relationship with the use of professional accountant, that could mean that the older the company's age, the more they use the accounting information through the accounting expert. They found that accounting qualification and firm age also have an impact on the perception of accounting information quality.

Our paper is closely related to Dhiaa and Khalaf (2016); Kamyabi and Devi (2011) who examined the impact of company's characteristics and accounting information relevance. However, they focused on the impact of company's characteristics rather than company's age. Our paper is also related to Prafeep et al. (2014) who examined whether SMEs are more likely to use accounting information compared to owner's/manager's education. Majority of the SMEs' owners were found to lack interpretation skills and an awareness of how to use information from financial statements. In contrast to Dhiaa and Khalaf (2016), this study emphasized the age of the company. This study stressed how company's age and owner's/manager's education affect the use of accounting information.

LITERATURE REVIEW

Small and Medium Enterprises (SMEs)

Micro firms are defined as enterprises with net assets less than IDR 50 million (land and buildings excluded) or enterprises which have less than IDR 300 million total annual sales. Small firms are enterprises with net assets from IDR 50 million to IDR 500 million (land and buildings excluded) or with total annual sales from IDR 300 million to IDR 2.5 billion. Medium-sized firms are those with net assets from IDR 500 million to IDR 10 billion (land and buildings excluded) or with total annual sales from IDR 2.5 to 50 billion.

World Bank Enterprise Survey stated that size of enterprise is defined by the number of employees: ranging from 5-19 employees, the firm is considered small, and from 20-99 employees, it considered as a medium-sized firm. According to Indonesian tax regulation, small firms are those that have assets valued between IDR 50 million and IDR 500 million with an annual turnover of between IDR 300 million and IDR 2.5 bil-

lion, while medium-sized enterprises are those that have assets valued between IDR 500 million and IDR 10 billion and have a yearly turnover between IDR 2.5 billion and IDR 50 billion (Mourougane, 2012).

Company's Age

Based on the result of the prior study namely Kamyabi and Devi (2011); Murti et al. (2015); Marwata (2001); Dhiaa and Khalaf (2016), it has been explained that the older companies have a more in-depth knowledge of the needs of its constituents for information about the company. Therefore, older company will tend to disclose more complete information, including accounting information, as detailed disclosure can provide added value to the company so as to attract the attention of the wider community. Older companies can demonstrate the ability of the company to be more existent and competent. Companies that have long existed generally have more experience and a higher ability to publish and disclose information relating to the company's activities.

This study measured the Company's Age based on the length of the company's established criteria by a different score (Marwata, 2001); Score 1 is given if the business is 1-5 years old, then score 2 for life of the company between 6 and 10 years old, and score 3 for life of the company between 11 and 15 years old, score 4 for life of the company from 16-20 years old, and a score 5 for life of the company >21 years.

Owner's/ Manager's Education

The study conducted by Prafeep et al. (2014), Azizi and King (2007); Kemp, et al. (2015); Reddaway, Goodman and Graves (2011); Holmes and Nicholas (1989) explains that SMEs have limitations in performing accounting due to inadequate knowledge of employees. For example, SMEs do not have adequate employee, or a professional accountant, so it is necessary to outsource. Many say that managers of SME's do not realize that in fact many consulting services available to them (Azizi & King, 2007).

This happens because the services provided has not been able to provide sufficient support in the business of SME's or the lack of sufficient information on the service (Kamyabi & Devi, 2011). The owners and managers of SMEs who do not have sufficient knowledge are usually not aware of their own weaknesses to discuss and ask for advice and support; they usually do everything themselves.

The measurement for owner's/manager's education is score 1 if the owner's/manager's educational background is high school education/vocational, score 2 if the owner's/manager's educational background has an associate degree, score 3 if owner's/manager's education has an associate degree in

accounting subject, score 4 if the owner's/manager's educational background has a bachelor's degree, score 5 if owner's/manager's educational background has a bachelor's degree in accounting subject.

Accounting Information

Accounting information is basically financial information and is mainly used for decision making. The Financial Management of the Small Enterprise conducted by Azizi and King (2007) emphasized the common belief that better financial information means better control and higher chance of success. Accounting information is information provided by accountants and accounting systems. This information is usually presented in financial statements such as the income statement and the balance sheet. It also includes any financial ratios extracted from these financial statements. (Stefanou, 2006); Companies and SMEs are legally responsible to produce general purpose accounting reports and have actually been implied in the Law of SMEs No. 9 in 1995 and the Taxation Act. Law of SMEs No. 9 1995 as the replacement of the Law of SMEs No. 20 in 2008 entitled Development of Small and Medium Enterprises and Cooperatives (Murti et al., 2015). The importance of accounting for organizing financial information in SMEs has been submitted by the government and accounting community (Kurniawati & MeilianaIntani, 2016; Musa, 2016).

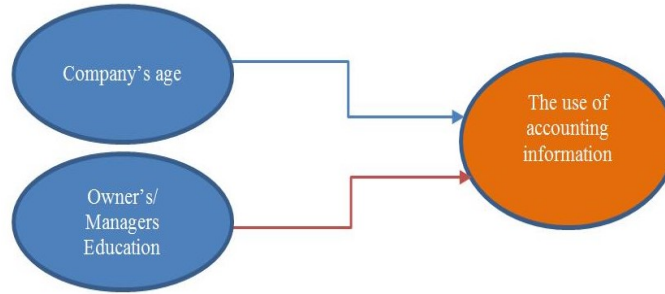
In terms of financial statements, Indonesian Institute of Accountants as professional body appointed by the Indonesian government as regulator profession issue Financial Accounting Standards for SMEs, namely Financial Accounting Standard of Entities Without Public Accountability (SAK ETAP), officially enacted effective from January 1, 2013. The financial statement consists of 5 types of reports which consist of: balance sheet, income statement, statement of changes in capital, cash flow statement and notes to the financial statements (IAI, 2013). The use of accounting information in this study is based on the type of financial statement prepared by the SMEs in industrial t-shirt centre in Bandung.

Measurement for the use of accounting information is score 1 if the SMEs have none of the five types of financial statements, score 2 if the SMEs present one type of financial statements, score 3 if SMEs present two types of financial statements, score 4 if SMEs present three types of financial statements, and score 5 if SMEs present four until five types of financial statements.

RESEARCH MODEL

The research model in this paper can be seen in the following figure. Age of the company has a positive effect on the use of accounting information. Owner's/manager's education is positively related to the use of accounting information.

FIGURE 1
Research Model



Based on previous studies on the use of accounting information, as has been done by Kamyabi and Devi (2011); Murti et al. (2015); Dhiaa and Khalaf (2016); Marwata (2001), regarding the influence of company's age on the use of accounting information, and based on the finding namely Prafeep et al. (2014), Azizi and King (2007); Kemp, et al. (2015); Reddaway et al. (2011); Holmes and Nicholas (1989), regarding the influence of owner's/manager's education on the use of accounting information, the following research hypotheses were

developed: H1: Company's age influences the use of accounting information.

H2: Owner's /manager's education influences the use of accounting information.

Hence, it is expected that companies with older age tend to utilise higher level of the accounting information, owner / manager who has a background in accounting knowledge will utilize the accounting information more.

DATA ANALYSIS

Profile of Responding SMEs and Respondents

TABLE 1
Company's Age

Company's Age	Number of Firms	Percentage (%)
life of the company between 1-5 years old	12	20
life of the company between 6-10 years old	22	36.7
life of the company between 11-15	15	25
life of the company 16-20	4	6.6
life of the company >21 years	7	11.7
Total	60	

TABLE 2
Owner's/Manager's Education

Owner/Manager	Number of Owners/Managers	Percentage (%)
high school education / vocational	25	42
Associate's degree	16	27
Associate's degree in accounting subject	7	11
Bachelor's degree	10	17
Bachelor's degree in accounting subject	2	3
Total	60	

Table 1 shows that the majority of companies (36.7%) have been established between six and ten years. Table 2 shows that 17% of the owners of SMEs /managers of the respondents have no bachelor's degree in accounting subject, only 3% of respon-

ents have a bachelor's degree in accounting subject, most of them as much as 42% have educational background in high school/vocational.

TABLE 3
Accounting Information Prepared by SMEs

Accounting Information Prepared by SMEs	Number of SMEs	Percentage (%)
Does not present any of the five types of financial statements	31	51.6
presents one type of financial statements	21	35
presents two types of financial statements	8	13.4
presents three types of financial statements	0	0
presents four until five types of financial statements	0	0
Total	60	

Table 3 shows that 51.6% of the SMEs did not prepare any financial statements, and there were no SMEs (0%) presenting three types five types of financial statements. The types of financial statements that are prepared by SMEs are statement of

income, balance sheet and cash flow statement, although the financial statements that have been prepared mostly did not meet the established criteria for the accounting standard on SMEs.

TABLE 4
Descriptive Statistic

No.	Variables	N	Minimum	Maximum	Mean	SD
1	Age	60	2	45	14.58	9.426
2	Education	60	1	5	2.52	1.142

As seen in table 4, Mean of Company's Age was 14.58 (SD = 9.426), mean for Owner's/Manager's Education was 2.52 (S.D = 1.142).

Analysis Method

Finalisation technique of this research used quantitative analysis technique, its objective was to generate the statistical test and researcher's subjectivity-free influence (Sekaran, 2001). In this research the quantitative analysis was done by quantified data research to result into the information needed. Analytical tool is multiple linear regression analysis by SPSS 20 program. Multiple linear regression analysis is used in this research because this research is to examine the relation influenced, using ratio scale that matches for multiple linear regression analysis.

Coefficient of Determination

The accuracy of the sample regression functions to assess the actual value measured by the coefficient of determination (R^2) and the value of the t statistic.

SPSS output display model summary in table 5 shows the value of R^2 of 0.160. This means that 16% variation in the use of accounting information can be explained by the variation of the age of the company variable.

SPSS output display Model Summary in table 6 shows the value of R^2 of 0.430 that means that 12% variation in the use of accounting information can be explained by the variation of the independent variables of background education of the owner/manager of the company.

TABLE 5
Company's Age Model Summary

Model	R	R^2	Adjusted R^2	S.E
1 AGE	.401a	.160	.161	.0000132

Predictors: (Constant), AGE

Dependent Variable: AI

Hypothesis Test

Individual Parameter Significance Test (t-test)

The first hypothesis until the second hypothesis is done by using the t-test. Based on test results by using multiple linear regression analysis, the following result is obtained as shown in table 7. All independent variables included in the model

have significant value $< \alpha = 0.05$. These results prove that all independent variables have a significant effect partially, so it can be concluded that the variable of the use of accounting information is affected by company's age and owner's/manager's education. The result of the above calculation can be summarized in table 8.

TABLE 6
Owner's/Manager's Education Model Summary

Model	R	R ²	Adjusted R ²	S.E
1 EDUC	.347 ^a	.120	.110	.0000116

Predictors: (Constant), EDUC

Dependent Variable: AI

TABLE 7
Test Individual Parameter (t-test)

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0.174	4.826		0.045	.000		
Age	.066	.091	.047	4.727	.046	.949	1.054
EDUC	.062	.047	.085	4.305	.019	.942	1.062

Dependent Variable: AI

TABLE 8
Results of t-Test

Variable	B	t count	Sig
AGE	0.066	4.727	0.046
EDUC	0.062	4.305	0.019
R Square		0.730	

Hypothesis Testing of the Influence of Company's Age on the Use of Accounting Information

Testing the influence of the company's age on the use of accounting information application by using multiple regression shows significant results. It can be seen in the significance value of 0.046 which is smaller than $\alpha = 0.05$. Based on the results of multiple regression testing on an individual basis, it can be concluded that the hypothesis H_1 states that the age of the company influences the use of accounting information received. Company age coefficient shows a positive correlation between company's age and the use of accounting information. The older the company's age, higher the level of accounting information they use. The older the company's age, more likely they are to use more accounting information.

Study results regarding company's age were consistent with previous studies namely Dhiaa and Khalaf (2016); Kamyabi and Devi (2011).

Hypothesis Testing of The Influence of Owner's/Manager's Education on the Use of Accounting Information

Testing the influence of Owner's/Manager's Education on the use of accounting information by using multiple regression shows significant results. It can be seen on the significance value of 0.019 which is smaller than $\alpha = 0.05$. Based on the results of multiple regression testing on an individual basis,

it can be concluded that the H_2 hypothesis, which states that Owner's/Manager's Education influences the accounting information application received.

Owner's/Manager's Education coefficient shows a positive correlation between Owner's/ Manager's Education and the use of accounting information. More educated the Owners/Managers and the older the company's age, the higher the level they use of accounting information. Study results regarding Owner's/Manager's Education are in line with previous study of Prafeep et al. (2014).

DISCUSSION

The finding of this study was that hypothesis developed concerning the use of accounting information got significant support.

Then, the results of this study are important to investors and other market participants for better understanding of the effect of company's age and owner's/manager's education that have the influence on the use of accounting information. This evidence can serve educational institutions in their courses. Accordingly, in the real world, we can give advice to the SMEs' owners or the accounting information users in SMEs to deduce the firm value based on accounting information which is affected by variables tested.

CONCLUSION

The purpose of this study was to determine whether the use of accounting information in SMEs is affected by age and education of company's owner / manager. Companies with older age and high level of owner's/manager's education utilize the high level of accounting information. Based on the research that has been done in this study, the hypotheses developed are accepted.

The study found that the majority of the owners / managers of SMEs do not realize the importance of accounting information that can help manage their business. The low level of education and educational background also makes accounting information stay unused in decision making. Age of Companies is also the reason why the owners / managers of SMEs consider it important whether or not the accounting information is used in their business. The study also found that not all SMEs produce accounting reports, more small businesses produce a Balance Sheet and Cash Flow Statement, and the Profit and Loss Report is more used by small businesses.

LIMITATIONS AND FUTURE STUDIES

As the small size and observations represent important limitations, we depended on the pooled data in evaluating our results. Future studies are invited to extend this study by measuring the effect of other company's characteristics on the use of accounting information. This might present new evidence regarding the possible companies' characteristics that could affect the use of accounting information. Researchers, who are interested in area of research, are encouraged to expand the research period and sample size to determine their effects on the use of accounting information.

The minimum value of accounting reports by SMEs provides implications for the role of the accountant. Further research would be needed to examine the accountant's role. Finally they are called to investigate the use of accounting information across countries in SMEs in ASEAN region or across the world to validate the comparison between their expected results to generalize this study results.

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