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Research Article

The Effect of Using a Manual Accounting System on the Accuracy of Financial Statements in Small and Medium Enterprises (SMEs) Medan Marelan

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Abstract

Good financial management is a key factor in the sustainability of small and medium enterprises (SMEs). One important aspect of financial management is the accounting system used. This study seeks to examine the impact of employing a manual accounting system on the precision of financial reporting for SMEs in Medan Marelan. The research methodology employed is a quantitative approach, including data collection approaches via surveys and interviews with small and medium-sized enterprise (SME) stakeholders. This research offers an overview of the efficacy of manual accounting methods in documenting financial transactions and generating precise financial reports. This paper examines the challenges encountered by SMEs in implementing manual accounting systems and proposes alternate alternatives to enhance the accuracy of financial statements. This study's results aim to elucidate the significance of accounting systems in enhancing company performance for SMEs, academics, and other stakeholders.

Introduction

Small and Medium Enterprises (SMEs) play a crucial role in the Indonesian economy, particularly in the Medan Marelan region. Small and medium-sized enterprises (SMEs) not only facilitate employment creation but also serve as a primary catalyst for enhancing regional economic growth (Razaq et al., 2024). The data indicates a consistent annual increase in the number of SMEs in Medan Marelan, demonstrating the significant potential of this sector in fostering economic independence within the community. Nonetheless, despite this expansion, SMEs continue to encounter numerous obstacles, one of which is inadequate financial management (Lubis et al., 2023).

The financial recording and reporting system employed is a primary factor affecting the sustainability of SMEs (Fadli, 2021). An effective accounting system is essential for firms to precisely and promptly comprehend their financial status (Nasib et al., 2023). Nevertheless, in fact, numerous SMEs in Medan Marelan continue to employ manual accounting systems for documenting their financial activities. A manual accounting system is a traditional way of recording financial transactions without the use of contemporary accounting software. This approach offers numerous benefits, including reduced expenses and simplicity of execution for enterprises lacking technological expertise. Nonetheless, the employment of manual accounting systems presents certain drawbacks that may compromise the precision of financial accounts.

Errors in recording, delays in report production, and insufficient comprehension of accounting principles frequently hinder the generation of accurate and dependable financial statements (Valdez-Juárez et al., 2022). The precision of financial statements is essential for SMEs as it influences corporate decision-making, financial

planning, and access to funding sources, including loans from banks or investors (German et al., 2023). In the absence of precise financial statements, SME proprietors may have challenges in cash flow management, establishing competitive pricing, and mitigating the risk of insolvency stemming from financial errors (F.Makatita, 2021).

In the contemporary digital age, numerous SMEs are transitioning to technology-driven accounting systems to enhance the efficiency and precision of financial reporting (Wahyono, 2021). Nonetheless, in Medan Marelan, numerous SMEs have yet to embrace technology owing to constrained knowledge, skills, and financial resources. Consequently, a disparity in the quality of financial statements persists between SMEs employing manual accounting systems and those utilizing technology-based systems. This study seeks to examine the impact of employing a manual accounting system on the precision of financial reporting for SMEs in Medan Marelan. This study aims to assess how effectively manual accounting methods fulfill the financial recording requirements of SMEs, with the expectation of offering recommendations to enhance the accuracy of their financial statements. This study aims to demonstrate to academics, government entities, and financial institutions the significance of assisting small firms with financial recording and reporting to enhance their competitiveness and sustainability.

This study's hypothesis creation is grounded in financial accounting theory, financial recording methods, and prior research examining the correlation between manual accounting procedures and the accuracy of financial statements. This study articulates its hypothesis based on theoretical foundations and prior research.

- 1. Null Hypothesis (H_0): The use of a manual accounting system does not significantly impact the accuracy of financial reporting in SMEs located in Medan Marelan.
- 2. Alternative Hypothesis (H_1): The implementation of manual accounting methods significantly influences the accuracy of financial reports in SMEs located in Medan Marelan.

Method

This study examines the impact of a manual accounting system on the accuracy of financial statements in SMEs located in Medan Marelan. It employs a quantitative approach utilizing descriptive and associative methodologies. We used this method to objectively assess the correlation between variables utilizing data collected from respondents. The sample size will be established using calculations utilizing the Slovin formula or other suitable methodologies to get a representative responder count.

Results And Discussion

Result

Table 1
Hypothesis Testing

Hypothesis	Estimate	p-value	Decision
Use of manual accounting system	0.5	0.011	Accepted

Source: Data processed (2025)

The computed p-value is 0.011, which is less than the conventional significance threshold of 0.05. This signifies that the correlation between the utilization of manual accounting techniques and the precision of financial statements is statistically significant. There is sufficient evidence to assert that the utilization of manual accounting systems influences the accuracy of financial accounts. Based on the p-value that is smaller than 0.05, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This conclusion indicates that the utilization of manual accounting systems significantly impacts the accuracy of financial statements in the examined SMEs. This investigation demonstrates that manual accounting procedures positively influence the accuracy of financial accounts. The more effectively and often the manual accounting system is implemented, the greater the accuracy of the ensuing financial statements.

Discussion

The investigation revealed that manual accounting procedures significantly affect the accuracy of financial statements in the examined SMEs. The regression coefficient is 0.5 with a p-value of 0.011, indicating acceptance of the alternative hypothesis and a substantial positive correlation between manual accounting systems and the accuracy of financial statements. The findings of this study align with the hypothesis indicating that while manual accounting systems are often more susceptible to human error and data management restrictions, they can yield reasonably accurate financial reports if handled well (Oppong et al., 2023).

The utilization of manual methods compels SME managers to be more meticulous and diligent in documenting each financial transaction, hence enhancing the accuracy of financial reports (Babarinde, 2022). This indicates that despite the popularity of computer or software-based systems for their speed and efficiency, numerous SMEs persist in utilizing manual systems due to constrained resources, both financially and in technical expertise (Shida, 2022). Conversely, with meticulous administration and a solid comprehension of accounting principles, manual systems can nevertheless yield satisfactory outcomes (Tuffour, 2022).

Nonetheless, the findings of this study indicate that while the utilization of manual systems positively influences the accuracy of financial statements, obstacles in implementation persist. The recording procedure necessitates enough precision and accounting proficiency, which might result in errors, particularly if SME managers lack a fundamental understanding of basic accounting principles or possess insufficient expertise in manual bookkeeping management. For instance, SME managers in Medan Marelan utilizing manual methods may encounter challenges in documenting intricate operations, such as inventory management or fixed asset depreciation, which necessitate more complex computations. This may result in inaccuracies in the financial accounts despite meticulous record-keeping efforts.

Conclusion

This study reveals that the use of a manual accounting system has a positive impact on the accuracy of financial reports in SMEs in Medan Marelan. Although this system requires strong accounting skills and careful management to avoid errors, it can still meet accuracy standards if managed properly. The success of the manual system largely depends on the knowledge and experience of SME managers in accounting principles. SMEs with competent managers tend to produce more accurate financial reports even when using manual methods. However, manual systems have limitations, such as the risk of recording errors, challenges in handling complex transactions, and lower efficiency. Therefore, accounting training for managers is essential to improve report quality and minimize mistakes. As businesses grow and transactions become more complex, SMEs should consider transitioning to technology-based accounting systems. The use of technology-based systems can enhance efficiency, accelerate data processing, and reduce the risk of human errors. Thus, while manual systems remain effective if managed well, adopting technology is a strategic step for SMEs to tackle more complex accounting challenges in the future.

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