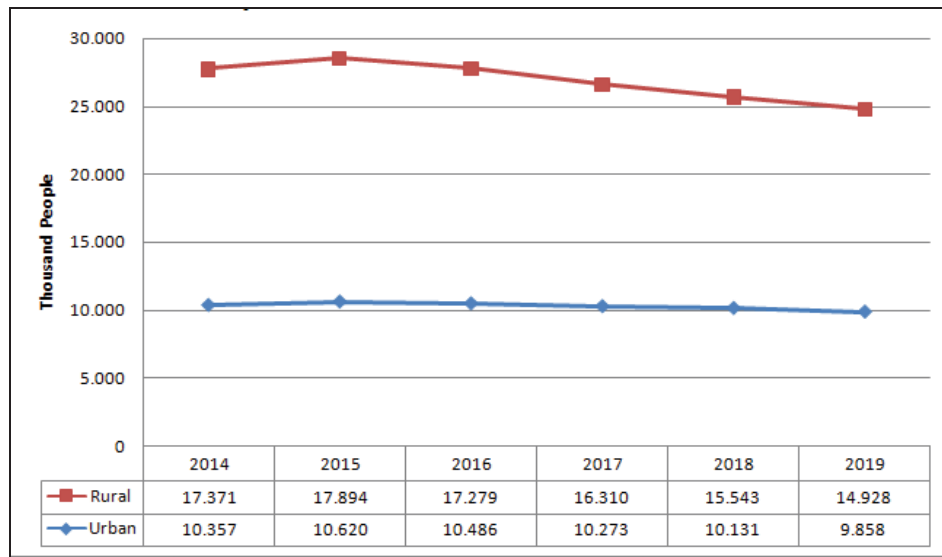


**CHAPTER 1**  
**INTRODUCTION**

**1.1 Research Background**

The rural poverty communities in Indonesia is still the main focus until 2019. In 2019, there are 12,6% or as many as 14 million people, who came from rural areas, from 23 million in total of poor people in Indonesia (BPS, 2019). The development of poverty rates in Indonesia in 2014-2019 is shown in Figure 1.1. Progress in the economy cannot only be prioritized for urban areas but must also reach rural areas.



**Figure 1.1**  
**Development of The Number of Poverty in Urban-Rural in Indonesia**  
Source : BPS (September, 2019)

Many poor people from rural areas are collecting with increasing rates of urbanization, and not in accordance with the Village Fund Allocation which is replaced annually. The following is the Village Fund Allocation.

**Table 1.1**  
**General Directorate of the Indonesian Ministry of Financial Budget**

Year	Amount of Funds (Rp)	Increase in %
2015	20.770.000.000.000	-
2016	47.110.000.000.000	126,81%
2017	60.000.000.000.000	27,36%
2018	60.000.000.000.000	0%
2019	70.000.000.000.000	16,67%

Source: BPS (September, 2019), processed

This shows the influence of economic empowerment that is still uneven in rural areas, as well as the potential of villages that have not been maximized. Regarding village spending which is still spent by physical spending, it is not an empowerment struggle that is able to prosper the economy of the village community. One alternative for the productive empowerment of rural communities is to establish a Village-Owned Enterprise.

Village-Owned Enterprise is an effort to improve the welfare of the community in village development that is designed based on the needs and potential of the village. Establishment of Village-owned Enterprise is mandated by Ministerial Regulation of Disadvantaged Regions and Transmigration Villages of the Republic of Indonesia Number 6 of 2014 in article 87 stated that Village-owned enterprise is formed by family, and mutual cooperation to utilize all potentials economy, performance protection, and natural resources, and human resources in order to improve the welfare of the community. The establishment of BUMDes aims to be a locomotive for local economic development village. The local economic development of this village is based on needs, potential, capacity villages, and capital participation from the village government in the form of financing and wealth villages with the ultimate goal of increasing the economic

standard of rural communities. Basic the background of establishing BUMDes as a locomotive for development in the village is more government and village community initiatives based on cooperative principles, participatory, and emancipatory from village communities.

Village-owned Enterprise as a village financial institution that runs a financial enterprise that meets the needs of micro-scale enterprises run by economic enterprise entities, Village-owned Enterprise is required to prepare financial statements for all Village-owned Enterprise, accountable and transparent enterprise units that are conducted every month. Generally, Village-owned enterprise financial statements is not different as much as the financial statements of other institutions. Financial statements are needed to determine the overall village-owned enterprise's financial performance during one period. The whole financial report consists of allocations, profit / loss statements and capital change reports. In presenting the financial statements, it must be realized that many parties will rely on the information in the financial statements. Therefore, the financial information presented in this financial statements must be useful for users to make future decisions.

The financial statements quality can be seen from its qualitative characteristics of the report finance. According to Government Regulations Number 71 of 2010, as for financial statements qualitative characteristics government which is a prerequisite normative as mentioned in Conceptual Framework for Accounting Government, among others they are understandability, relevance, reliability, and comparability. The development of Village-Owned Enterprise in Probolinggo Regency is also quite rapid, because it has more than 140 Village-owned Enterprise from 325 Villages. In Paiton District, there are 8 Village-Owned Enterprises that are still active until now. As a form of accountability, each Village-Owned Enterprises is required to produce quality financial statements. Thus, quality human resources and understanding of accounting are also needed.

Based on previous research, the quality of financial statements is influenced by many factors, three of them are the education level, enterprise size, and

accounting knowledge. The education level was chosen as the first factor in the quality of financial statements because it can be used as an indicator that shows a person's intellectual level, the higher the education level, the higher one's knowledge and intellectual level (Sukriani et al, 2017). Libby (1995) defined education as a learning process to gather and increase knowledge. Education provided through learning by structured and in a relatively long time. Education can improve a person's quality. The higher the education taken will have high intellectual experience where intellectual experience will simplify work performance and have an impact on better work performance (Saputra, 2002). Educated people will be more rational thinking and acting, and discussing assignments and responsibilities that are well charged, formal education with the basics of knowledge, theory, logic, ability, analysis, and develop character and personality (Meuthia, 2008).

Enterprise size is an indicator that can show a enterprise condition that can be determined by its the size (micro, small, or medium), such as the number of employees that is used to run the enterprise and the total assets owned, and the total revenue achieved. Mulyani's (2014) research showed that enterprise size positively and significantly influence the financial statements quality. This research is also supported by the research of Devi (2017).

Accounting knowledge is employee's understanding of procedures which starts from the collection process data, recording, summarizing until with financial reporting. Financial statements are a product produced by accounting field or discipline. Yuliani et al. (2010) mentioned that a person can be said to understand in the field of accounting if he is smart and has understood the process of going up to producing financial statements equally with applicable accounting standards. Accounting understanding is tested using three proxies namely general understanding of SAP, understanding of SAP structure, and understanding of accounting systems. Appropriate to this phenomena, this research is intended to correlate the factors that influence the Village-Owned Enterprise's financial statements in Paiton Sub-district, Probolinggo District.

## **1.2 Research Objective**

Based on the research background mentioned above, the problem can be formulated for this research are:

1. Analyzing the influence of education level on the financial statements quality of Village-Owned Enterprise in Paiton Sub-District.
2. Analyzing the influence of enterprise size on the financial statements quality of Village-Owned Enterprise in Paiton Sub-District.
3. Analyzing the influence of accounting knowledge on the financial statements quality of Village-Owned Enterprise in Paiton Sub-District.

## **1.3 Research Gap**

Research on the influence of education level, enterprise size, and accounting knowledge on the quality of financial statements has been carried out as much as research Muzahid (2014), Devi (2017), and Sukriani et al (2018). Unfortunately, there is still few of research that examines the factors that influence the Village-Owned Enterprises' financial statements quality, while the Village-Owned Enterprise is expected to develop rapidly in society. Sukriani et al (2018) in her research examines the influence of education level, work experience, training, and use of information technology toward the quality of the financial statement of BUMDes. In this case, this research cannot examine working experience and the usage of information technology because the object of research is considered to be ignoring the working experience of their operational executor and also not optimizing the use of information in their activities. Besides, the results of the research can also be used as a reference for the community, who are still researching and are in the Village-Owned Enterprise.

## **1.4 Summary of Research Method**

The approach of this research is using a quantitative approach. The variables used are the quality of the Village-Owned Enterprises' financial statements as the dependent variable, then the education level, enterprise size, and

accounting knowledge as independent variables. The data of this research are primary data obtained through direct research results from respondents with questionnaires as its media. The research population was all of Village-Owned Enterprises' memberin Paiton District, Probolinggo Regency. The research analysis methods are validity test and reliability test as the instrument test, expanded with normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test as the classical assumption test, and using multiple linear regression analysis as the hypothesis test.

### **1.5 Summary of Research Result**

Based on the background and objectives research, the conclusion of this research is the education level and enterprise size had no influence the financial statements quality significantly. This phenomena occured because most of the respondents had senior high school as their education background and came from micro to small enterprises. In the other hand, the accounting knowledge significantly influenced the financial statements quality. So, accounting knowledge is indeed the foundation for maintaining the integrity of an entity to report its finance.

### **1.6 Research Contributions**

This research is intended to be able to contribute to all elements of society, including the following.

1. Theoretical Contributions.

As a study to get views, insights, and knowledge about the quality of Village-Owned Enterprises' financial statements, especially in Paiton Sub-district, Probolinggo District, East Java.

2. Practical contribution

- a. For the Government

This research is expected to provide deliberation in determining economic policies, especially in enterprise development, especially village leaders.

b. For the Village-Owned Enterprises

This research is supposed to contribute useful information in order to increase the effectiveness of the organization of good financial statements.

c. For the future researchers

This research is also expected to be used as a reference for further research with a more extensive study of village-owned enterprises.

### **1.7 Research Systematics**

The systematic writing contents of each chapter to compile and elaborate parts of the whole series of the research. The systematic writing in this research is as follow:

#### **CHAPTER 1- INTRODUCTION**

This chapter provide the research background that contains a brief description of the necessity of each village to form village-owned enterprise, that each village-owned enterprise is required to make financial statements that are transparent and accountable. Then, continued with the elaboration of the research gap. Additionally, we will provide the research objectives, summary of research results, and systematic writing.

#### **CHAPTER 2 - LITERATURE REVIEW**

This chapter describes the theory that will be the guideline in this research. Then, continued by explaining variable definitions used in this research which are education level, accounting knowledge, and enterprise size. Later on, the hypothesis development will be provided expanded with the conceptual framework.

### CHAPTER 3 - RESEARCH METHODOLOGY

This chapter interprets the research approach used, namely the quantitative research approach. It also explain the variable identification, the operational variable and measurement, the types and data source, the sampling and data collection procedure, and also the data analysis technique used in this research.

### CHAPTER 4 - RESULT AND DISCUSSION

This chapter is the main of this research. In this chapter, it will present the results of the research on. It will be interpret the results from some test explained in Chapter 3. Afterwards, it will proceed with discussion in order to answers the problems that have been formulated.

### CHAPTER 5 - CONCLUSION AND SUGGESTION

In this chapter, contains conclusions about the results and discussion which aim to answers the hypotheses that have been mentioned. Also, it will contain suggestions for all of the village-owned enterprises' member, and further research who will discussing the similar topic.