

# Determinants of Creative Industry in Financial Reporting

Dewi Fitriyani\*, Yuliusman, Fitrini Mansur and Eko Prasetyo

**Abstract---** *Financial statements are accounting information that can be used by entrepreneurs to determine the condition and financial performance. Financial statements are also a form of financial management accountability. Important for entrepreneurs to prepare financial statements. Therefore this study aims to determine the factors that influence the creative industries in preparing financial statements. The factors examined include the latest level of education, educational background, business size, length of business, banking financing, and understanding of accounting. The study was conducted in the creative industry in the field of printing in Jambi City. Data were collected by survey method using a questionnaire. The hypothesis was tested using logistic regression method. The results showed that the size of the business, banking financing and understanding of accounting affect the creative industry to prepare financial reports, while the level of education, educational background, and length of business standing have no effect. this research can be beneficial for the government in developing creative industries. the government needs to increase the understanding of creative industry entrepreneurs in accounting to raise awareness and ability of creative industries in preparing financial reports.*

**Keywords---** *Accounting Information, Creative Industry, Financial Statement.*

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## I. INTRODUCTION

Creative economy is a development concept based capital of creativity that can potentially increase the economic growth. The creative economy can also be the use of resources reserve that are not only renewable, even unlimited, namely ideas, talents and creativity. The economic value of a product or service in the creative era is no longer determined by the raw materials or production systems, as in the industrial era, but rather the use of creativity and creation of innovation through the development of increasingly advanced technology.

The Indonesian government launched the development of the creative economy with the issuance of Presidential Instruction No. 6 of 2009. In the Presidential Instruction, there are 14 creative industry sectors which are the development priorities. The creative industry is a special concern of the government because it has an important role in improving the economy of a region. Creative industries can be defined as industries that originate from the use of creativity, skills and individual talents to create prosperity and employment through the creation and utilization of creative power and industrial creativity.

In the era of globalization, especially in the era of the ASEAN Economic Community (AEC), industrial businesses need to prepare themselves to penetrate markets with intense competition. The entrepreneurs often experience obstacles in developing business, one of which is in the field of capital financing through banks. In applying for a financing loan, the bank requires financial statements that describe the financial management of the

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business. However, not all business actors, especially those in creative industries who are still in micro, small and medium scale, are capable and have financial reports that describe the financial management of their businesses. This is in accordance with Baas and Schrooten (2006) which states that the majority of small and medium businesses are not able to provide information related to business conditions.

The responsibility of resources, especially finance, entities need accounting to prepare financial statements. Accounting and financial statements are an inseparable unit. This is because the financial statements are the end result of the process of accounting activities so to be able to compile financial statements must first understand accounting. Financial statements provide information regarding financial position, performance and changes in the financial position of an entity that is beneficial to a large number of users in economic decision making.

Financial reporting for micro, small and medium enterprises (MSMEs) is one of the topics of concern in accounting studies given the role of MSMEs in economic development. MSMEs help the government in economic growth and reduce unemployment. MSMEs have also been proven to be able to survive in situations of adverse economic conditions such as during the 1999 monetary crisis and the 2008 global crisis. Financial preparation and reporting based on accounting standards is an opportunity to encourage economic growth in a country's development (Gogo, et al., (2015). Furthermore, Gogo et al. (2015) confirms reporting reliable, transparent information and avoiding informality is an important pillar for strategic and sustainable development.

Lack of understanding of accounting is one of the reasons businesses do not do financial reporting. Small entrepreneurs do not have accounting knowledge, and many of them do not understand the importance of recording and bookkeeping for business continuity (Zahro and Wahyundaru, 2015). There are many factors that influence business actors in preparing financial statements. The determinant factors that influence the financial reporting examined in this study are the last level of education, last educational background, business size, length of business, banking financing, and understanding of accounting. Based on this description, the researcher is interested in examining the determinants of business actors in the context of creative industries in preparing financial reports or financial reporting.

## **II. LITERATURE REVIEW**

### ***Accounting Concepts and Financial Statements***

According to the Accounting Principles Board (APB) and the American Institute of Certified Public Accountants (AICPA), accounting is a service activity that serves to provide quantitative information, especially financial in nature about an economic entity that is intended to be used in making economic decisions, among various alternatives action.

Financial statements are defined by Baridwan (2004) as a summary of a recording process which is a summary of financial transactions that occur during the financial year concerned. The Indonesian Institute of Accountants (2015) in the Financial Accounting Standards of financial statements aims to provide information regarding the financial position, performance, and changes in the financial position of a company that is beneficial to a large number of users in making economic decisions. The financial statements compiled consist of Balance Sheet /

Statement of Changes in Financial Position, Statement of Changes in Equity, Statements of Income, Statements of Cash Flows and Notes to Financial Statements.

### ***Creative Industries***

The President's Policy in Presidential Instruction of the Republic of Indonesia Number 6 of 2009 aims to develop the creative economy. The policy for the development of the creative economy will focus more on the economic activities of creativity, skills, and individual talents to create individual creations and creativities to create individual creations and creatives of economic value and influence the welfare of the Indonesian people, with goals, directions, and strategy. In the framework of developing the creative economy there are 14 sectors of the creative industries that are prioritized, including: advertising, architecture, art and antique markets, craft, design, , fashion, film, video, and photography, interactive games, performing arts, publishing and printing, radio and television, research and development.

### ***Hypothesis Development***

Education provides insights into knowledge, skills, expertise, and values for everyone who attends education. Through education, everyone gets the chance to increase their capacity and productivity. This is in accordance with Ghozali(2000) statement that education can function to increase productivity and act as a signal of ability. Business practitioners who have higher education levels and have related educational backgrounds can be suspected of having better abilities in financial reporting of their businesses, so this research hypothesizes:

H1: The last level of education has an effect on financial reporting

H2: The latest educational background has an effect on financial reporting

In large business sizes, employers will be better able to employ employees with sufficient skills and expertise according to business needs including in preparing financial statements. The size of the business can influence the thinking of entrepreneurs related to complexity and the higher level of company transactions ( Zahro and Wahyundaru, 2015). Rudiantoro and Siregar (2012) showed the influence of business size on the perception of entrepreneurs regarding the importance of financial statement needs. The greater the size of the business will tend to do the process of preparing financial statements. Therefore this study hypothesizes:

H3: Business size influences financial reporting

Long-standing businesses will have more ability and sufficient resources to carry out a routine and complex process including financial reporting. Long-standing businesses will pay attention and have standard and regular procedures in financial management so they will tend to be disciplined in accounting records and financial reporting. The age of the business will have an influence on the frequency of regular bookkeeping (Das and Dey, 2005). Businesses that have a longer lifespan will have regular accounting and report financial management by preparing financial reports. Based on this description, this study hypothesizes:

H4: Business duration has an effect on financial reporting

Business actors need sufficient capital to develop their businesses. In meeting these capital needs, business actors can fulfill it from financing from banks. Submitting a loan for bank capital financing requires every business to have a financial report. Every industrial business actor applying for bank financing will prepare financial reports to meet these requirements. Based on this description, this study has the following hypothesis:

H5: Banking financing affects financial reporting

Someone's knowledge and understanding of something can affect someone in acting and making decisions. Kreitner and Kinicki (2001) state that a person's knowledge will influence his behavior and decisions. Entrepreneurs who have a better understanding of accounting will tend to prepare financial statements. Previous research (Linawati and Restuti , 2015 ; Suhairi , 2004), found that accounting knowledge will influence the use of accounting information. These results indicate the accounting knowledge of business actors will further encourage the use of accounting information in decision making. Business actors will also consider it important to have financial reports as a source of information in business management, so this research hypothesizes the following:

H6: Understanding of accounting influences financial reporting

### **III. RESEARCH METHODS**

#### ***Operationalization of Research Variables***

a. The last level of education

The last level of education is measured by the level of the last education undertaken starting from lower than high school / vocational equivalent, Diploma, Bachelor, and Postgraduate

b. Educational background

Educational background is known by the fields of knowledge gained while studying, namely accounting, economics and management , and others.

c. Business size

The size of the business is adjusted to the criteria of micro, small and medium enterprises according to the Central Statistics Agency which consists of the number of workers

e. Length of Business

The length of a business standing is measured by the age of the business since the business was founded

f. Banking financing

Banking financing to find out whether the business is applying for credit financing through banks or not.

g. Understanding of accounting .

Understanding of accounting to determine the level of understanding of business actors to accounting.

h. Financial reporting. This variable is measured on a nominal scale , which is a business that compiles financial statements and does not prepare financial statements .

**Population and Sample**

Population refers to the whole group of people, events, or matters of interest that researchers investigate (Sekaran, 2006). The population in this study are 113 micro, small and medium enterprises engaged in the creative industries in the field of printing business in the city of Jambi. The sample consists of a number of members selected from the population (Sekaran, 2006). The number of samples is calculated by the Slovin formula so that 88 samples can be obtained. The number of samples is calculated by the Slovin formula so that 88 samples can be obtained.

**Method of collecting data**

In this study the method used to collect data is a survey conducted by distributing questionnaires to obtain individual opinions regarding the variables.

**Data Analysis Tool**

**Logistic Regression Test**

Logistic regression test is used to test the effect independent variable on the dependent variable which the dependent variable is categorical variables. The influence of the dependent variable can be known if the *p-value* is smaller than alpha 0.05 at a 95% confidence level.

**IV. RESULTS AND DISCUSSION**

**Hypothesis Test Results**

Model fit model using Omnibus Test. The significance value was  $0.000 < 0.05$ , which means the independent variable can be influence dependent variable, so that the model is fit. This result similarly with Hosmer and Lemeshow Test indicate the model fit with the significance value  $0.238 > 0.05$ .

Table 1: Fit Model Test Results

| <b>Omnibus Tests of Model Coefficients</b> |       |            |    |      |
|--|-------|------------|----|------|
|  |       | Chi-square | df | Sig. |
| Step 1                                     | Step  | 44.911     | 6  | .000 |
|  | Block | 44.911     | 6  | .000 |
|  | Model | 44.911     | 6  | .000 |

**Hosmer and Lemeshow Test**

| Step | Chi-square | df | Sig. |
|------|------------|----|------|
| 1    | 9.207      | 7  | .238 |

The model summary table result Nagelkerke R-Square value was 0.602 which indicate that the ability of the independent variable in explaining the dependent variable is equal to 60.2%.

Table 2: R-square Test Result

**Model Summary**

| Step | -2 Log likelihood   | Cox & Snell R Square | Nagelkerke R Square |
|------|---------------------|----------------------|---------------------|
| 1    | 58.407 <sup>a</sup> | .451                 | .602                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

Table 3: Hypothesis Test Results

This research was tested by using logisting regression method. The result show

**Variables in the Equation**

|                     |                         | B       | S.E.  | Wald  | df | Sig. | Exp(B) |
|---------------------|-------------------------|---------|-------|-------|----|------|--------|
| Step 1 <sup>a</sup> | LevelEducation          | .516    | .403  | 1.640 | 1  | .200 | 1.675  |
|                     | EducationBackground     | .364    | .422  | .741  | 1  | .389 | 1.439  |
|                     | BusinessSize            | 1.676   | .578  | 8.404 | 1  | .004 | 5.345  |
|                     | LengthBusiness          | .608    | .491  | 1.532 | 1  | .216 | 1.836  |
|                     | BankingFinancing        | -3.007  | 1.263 | 5.670 | 1  | .017 | .049   |
|                     | AccountingUnderstanding | .391    | .172  | 5.145 | 1  | .023 | 1.478  |
|                     | Constant                | -12.959 | 7.113 | 3.320 | 1  | .068 | .000   |

a. Variable(s) entered on step 1: Level Education, Education Background, Business Size, Length Business, Banking Financing, Accounting Understanding.

Hypothesis one states that the level of education has an effect on financial reporting which is apparently unacceptable because the results of the hypothesis test show a significance value above 0.05 , which is equal to 0.620. Hypothesis two that predicts the latest education has an effect on financial reporting cannot be accepted with the results of statistical tests that show a significance value of 0.524 or above 0.05.

Hypothesis test results four show the size of the business effect on financial reporting with a significance level of 0.02 or below 0.05.Hypothesis five which mentions the length of business standing has no effect on financial reporting with a significance level of 0.309 or above 0.05. The results of the six hypothesis tests show a value of 0.010 or below 0.05 so that the hypothesis that bank financing affects the financial statements can be proven. Likewise, hypothesis six which states that understanding of accounting influences financial reporting is also accepted with a significance value of 0.00 or below 0.005.

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