

CHAPTER 1

INTRODUCTION

1.1 Research Background

The SARS-CoV-2 virus which caused the COVID-19 disease has brought the most significant changes in the world over the past century. The virus outbreak has a huge impact on the global economy, social development, business risk, financial management and financial markets. This impact was felt in all regions of Indonesia, including in West Sumatra. The spread of the Corona virus outbreak in the West Sumatra region has continued to increase from the initial case discovery. In October 2020, positive cases of Covid-19 had reached more than 19,900 cases in West Sumatra, 8,339 cases came from Padang City. The increasing development of positive cases requires the government to establish large-scale social restriction policies. This policy causes a loss of household income because it requires people to work at home to reduce employee density (Tairas, 2020). So, it has an impact on all business sectors, especially MSMEs.

Before the Covid-19 pandemic, MSMEs were able to make a major contribution to the Indonesian economy. Based on the data, in 2019, MSMEs have a large contribution to gross domestic product (GDP). MSMEs contribute 60% of GDP and contribute 14% of total national exports (Aditya, 2020; Susanti, Istiyanto, & Jalari, 2020). However, in 2020, there was a decline in GDP. The data shows that in the first quarter, GDP decreased 2.41% and in the second quarter it decreased 4.19% (q-to-q). One of the factors that led to a decrease in the GDP due to the decrease of income received by MSMEs during a pandemic Covid-19. This condition is felt by MSMEs especially in trade and repairs, transportation and warehousing, the provision of accommodation and restaurants (Thaha, 2020). Therefore, governments take an action to overcome the problem, such as creating a credit policy to help the sustainability of MSMEs because MSMEs are the biggest contribution to GDP (Pratiwi, 2020). However, this problem will not be resolved if MSMEs rely on support from the government, MSMEs must carry out good accounting information system to resolve the issue. (Pakpahan, 2020)

The number of MSMEs in Padang City is increasing every year. Based on data obtained from the Department of Cooperatives and MSMEs in West Sumatra in 2019, the number of MSMEs in West Sumatera is 593.100 and the number of MSMEs in the city of Padang amounted to 80.000 units. However, this development is only visible in terms of numbers but not followed by developments in the financial aspects. One of the factors affecting this development is the lack of access to finance or capital (Lusimbo & Muturi, 2015; Pakpahan, 2020). Mourougane (2012) stated that the lack of access to finance due to lack of knowledge and skills of owners of MSMEs to implement and meet the standard requirements set by the banks. Furthermore, Mourougane also argues that banks actually want to expand their activities to MSMEs, but MSMEs are unable to provide reliable information which increases the risk of loans.

Improving the provision of financial information, especially in accordance with the accounting and auditing standards, can facilitate MSMEs access to financing. Obviously, this can be done by providing information through good quality of financial statements. Therefore, the accounting information system has undoubtedly become an important factor for most organizations in achieving their goals because good accounting information can create a good quality of financial statement. So, inefficient of accounting information system and rapid environmental change as conditions during a pandemic Covid-19 can lead to uncertainty for companies. These constraints will certainly reduce the potential for MSMEs to realize the strategic plan that has been designed. (Ozili, 2020)

However, preparing a good financial report is not easy for MSMEs. According to IFC (2006), preparing financial statements is important by MSMEs to apply for loans but MSME managers, especially women, often find difficulty to separate between personal and business financial accounting. This study also found that most of women entrepreneurs only kept simple records of income and expenses. If there is transaction that are not understood by MSME owners, they choose not to record it. Besides that, there are also owners who do not record their operating costs well. So, it seems that the business is making a profit even though costs are not recorded properly. This will have an impact on the resulting of financial statements. Because of that, this study recommends that the provision of

training in preparing financial statements for MSMEs to more easily meet the requirements of the loans.

In line with the opinion of many researchers who emphasize the importance of a good accounting information system for business performance. Maseko and Manyani (2011) states that the accounting information system has significant effect on the company's performance. This study concludes that MSMEs need more attention of accounting Information Systems as a tool to increase organizational performance especially in a highly competitive and attractive organizational environment to achieve competitive advantage. MSMEs should make Accounting Information Systems as the main target of doing business because of the system that requires continuous improvements to adapt to the changing nature of the system and the environment. To support the improvement of a better accounting information system, training is needed for business owners.

In addition, according to Okoli (2011), there is a strong positive relationship between financial accounting records and the performance of small businesses. It means that financial accounting records affect the performance of small businesses. Financial accounting records are very important for decision making in business to increase business efficiency and productivity for effective business performance. It was also found that financial accounting records can increase business opportunities during operation and provide relevant information to enable cash control in the business. This is in line with research conducted by Onaolapo and Adegbite (2014), which confirms that the recording provides substantial information about the company's financial strength and current performance and also in the future. Therefore, managers must provide these records as well as possible to be useful in decision making.

It can be concluded that inadequate accounting information systems and financial records will result in inefficient financial management which will damage business efficiency and affect the performance of Micro, Small and Medium Enterprises. If accounting information systems are good, efficient financial management will help MSMEs to strengthen their business. As a result, some of the difficulties during the Covid-19 pandemic can be overcome. Although, most of

people in Padang City work as owners of MSMEs, but, in practice, MSMEs performance does not indicate how the accounting information systems can affect the efficiency of the performance. The most of business failures associated with the inability of financial managers to plan and control of accounting information system (Howard, 2009).

However, when the author carried out internship and community service activities, it was found that the awareness of MSMEs in Padang City towards accounting information systems was increased. The owners are enthusiastic in participating in the activities carried out by the author. They assume that the accounting information system will be very helpful in dealing with the pandemic Covid-19. Therefore, based on this background explanation, the authors are interested in taking the title "Analysis of the Use of Accounting Information Systems at MSMEs in the Padang City before and during the Covid-19 Pandemic". This study is different from previous studies because it compares the use of accounting information systems before and during the Covid-19 pandemic. The results of this study are expected to provide an overview of the implementation of accounting information systems by MSMEs in Padang City before and during the Covid-19 pandemic, including challenges in its application.

1.2 Problem Statement

Based on the background above, the problems to be studied is

“How is the Implementation of accounting information systems by MSMEs in Padang City before and during the Covid-19 Pandemic?”.

1.3 Research Objectives

Based on the problem statement above, the objective of this research is to investigate the implementation of accounting information systems by MSMEs in Padang City before and during the Covid-19 Pandemic.

1.4 Research Benefits

The results of this study are expected to provide the following benefits:

1. Academic Benefits

- a. To increase insight and knowledge regarding the use of accounting information system by SMEs before and during an economic crisis such as the one caused by the Covid-19 pandemic
- b. Contributing to the development of literature on financial management in Indonesia.
- c. To become one of the references and guidelines for further research on the same topic.

2. Practical Benefits

- a. For the Government
To provide benefits for the government as an evaluation to be able to improve further programs in order to improve the development of SMEs in Indonesia.
- b. For SMEs
To add information related to efficient and effective accounting information system practices for SMEs. So, it can increase the awareness of MSMEs in Indonesia to carry out financial management as an effort to maintain and improve company performance, especially when facing the Covid-19 pandemic.

1.5 Writing Systematic

The research is organized as follows. The first chapter present the background and reason to conduct this research. The chapter then followed by the objectives and the benefit of this study, as well as writing systematic of this research. The second chapter explains about Small Medium Enterprise in Indonesia, definition of system, information, accounting, system information, accounting information system and its utilization, the status and condition in implementing accounting information system, and challenges in implementing accounting information system. This chapter is continued by discussing several previous research's that related to this research and research model. The third chapter present

the research methodology which consist of research design, data type and sources, data collection method, and research population and sample. The next chapter present the findings together with the discussion. The last chapter is closed by the conclusion, limitation and research recommendation.

