

The Influence of Accounting Information System Digitalization and Financial Reporting on the Quality of MSMEs' Financial Reports in South Jakarta: The Moderating Role of Digital Literacy

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Article history:

Received July 12, 2026

Revised July 29, 2026

Accepted August 3, 2026

Abstract

This study aims to examine the influence of accounting information system digitalization (X_1) and financial reporting (X_2) on the quality of MSMEs' financial reports (Y) in South Jakarta, with digital literacy (Z) serving as a moderating variable. MSMEs in Indonesia continue to face challenges related to the quality of financial records and the limited utilization of digital technologies, which may hinder the production of reliable financial reports. This study employed a quantitative approach using a survey method involving MSME owners and managers in South Jakarta. Data were collected through structured questionnaires and analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with SmartPLS 3 software. The findings reveal that accounting information system digitalization has a positive but statistically insignificant effect on the quality of MSMEs' financial reports. Similarly, financial reporting does not significantly influence financial report quality. Furthermore, digital literacy is not found to moderate the relationships between accounting information system digitalization, financial reporting, and the quality of financial reports. These findings suggest that digital transformation among MSMEs in South Jakarta remains at an early stage of adoption and that the effectiveness of financial digitalization depends not only on the availability of technology but also on accounting competencies, organizational readiness, internal control mechanisms, and the integration of digital systems into business processes. In addition, the study highlights the need for refining measurement instruments and expanding future research by incorporating additional determinants of financial reporting quality. This study contributes to the growing body of literature on MSME accounting and digital transformation while providing practical implications for policymakers in designing more effective digital empowerment strategies for MSMEs.

Keywords:

Accounting Information System Digitalization; Financial Reporting; Quality of Financial Reports; Digital Literacy; MSMEs.

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute one of the primary pillars of Indonesia's national economy. Their contribution extends beyond employment generation to include regional economic development, income distribution, and economic resilience (Thrassou et al., 2020). In Indonesia, MSMEs contribute significantly to Gross Domestic Product (GDP) and represent the largest proportion of business entities, highlighting their strategic role in maintaining economic stability amid dynamic global and domestic challenges.

Despite their substantial contribution, the quality of business management among MSMEs remains relatively limited, particularly in financial management practices. Many MSMEs continue to experience challenges related to inadequate financial recording and reporting systems, which are often conducted manually, inconsistently, and without adherence to established accounting standards (Nugroho et al., 2024). In many cases, business finances are still mixed with personal finances, resulting in financial information that lacks reliability, transparency, and usefulness for decision-making processes (Hendrawati et al., 2024).

The quality of financial reporting is a critical determinant of organizational sustainability and access to external resources. Poor-quality financial reports limit transparency and accountability to stakeholders, including financial institutions, investors, and government agencies (Jabbouri, 2016). Consequently, MSMEs frequently encounter difficulties in obtaining formal financing, establishing business credibility, and expanding their operations. High-quality financial reports are expected to provide relevant, reliable, comparable, and understandable information that supports effective managerial and strategic decisions (Fitriani & Fathoni, 2017).

Recent advances in digital technology have created substantial opportunities for MSMEs to improve their financial management practices. The digitalization of accounting information systems and financial reporting enables organizations to process, store, and present financial information more efficiently, accurately, and systematically. The adoption of digital accounting applications, electronic payment systems, and cloud-based financial platforms has facilitated better transaction management and improved financial reporting processes among MSMEs (Suryanto & Amin, 2020). Furthermore, the increasing penetration of digital technologies across Indonesia has accelerated the adoption of digital solutions among small businesses.

However, the implementation of digital technologies does not automatically guarantee improvements in the quality of financial reporting. Previous studies have suggested that the effectiveness of digital transformation is highly dependent on organizational readiness, accounting competencies, internal control mechanisms, and the ability of users to utilize technology effectively (Lutfi, 2022; Ula, 2023). In this regard, digital literacy has emerged as an important determinant of successful technology adoption. Digital literacy encompasses not only technical skills in operating digital devices and applications but also the ability to critically evaluate, interpret, and utilize digital information responsibly and productively in business activities.

Existing literature has extensively examined the relationship between digitalization and MSME performance, yet the findings remain inconclusive. Several studies reported that digitalization positively influences operational efficiency, governance quality, and financial reporting practices among MSMEs (Hendrawati et al., 2024; Mutoharoh et al., 2020). Conversely, other studies found that the adoption of digital technologies does not significantly improve organizational outcomes when users lack sufficient competencies or when organizations are not adequately prepared for digital transformation (Lutfi, 2022; Ula, 2023). These inconsistencies indicate the existence of contextual and contingency factors that influence the relationship between digitalization and the quality of financial reporting.

Moreover, prior studies have predominantly focused on digitalization as an independent predictor while paying limited attention to moderating variables that may explain variations in its effectiveness. Factors such as organizational culture, regulatory support, human resource competencies, and digital capabilities have received relatively limited empirical attention within the context of Indonesian MSMEs. This gap highlights the need to further investigate how digital literacy may strengthen or weaken the relationship between accounting information system digitalization, financial reporting, and the quality of financial reports.

From a theoretical perspective, this study is grounded in the Technology Acceptance Model (TAM) (Davis, 1989) and the extended Technology Acceptance framework (Venkatesh & Davis, 2000), which emphasize that the successful adoption of technology is influenced by users' perceptions, competencies, and behavioral intentions. Additionally, the information quality perspective suggests that the value of an information system is reflected in its ability to produce accurate, relevant, and timely information. Accordingly, digital literacy is expected to play a strategic role in enhancing the effectiveness of digital accounting practices among MSMEs.

Therefore, this study positions digital literacy as a moderating variable that is hypothesized to strengthen the effects of accounting information system digitalization (X_1) and financial reporting (X_2) on the quality of MSME financial reports (Y). By focusing on MSMEs in South Jakarta, an urban area characterized by relatively high digital technology penetration, this study seeks to provide a more comprehensive understanding of the mechanisms underlying digital transformation in the MSME sector.

The objectives of this study are twofold: (1) to examine the influence of accounting information system digitalization and financial reporting on the quality of MSME financial reports in South Jakarta, and (2) to

analyze the moderating role of digital literacy in these relationships. This study is expected to contribute to the literature on accounting information systems, digital transformation, and MSME development while providing practical implications for policymakers, business practitioners, and stakeholders in designing more effective digital empowerment strategies for MSMEs.

1.1. Digitalization of Accounting Information Systems

The digitalization of accounting information systems refers to the integration of digital technologies into accounting processes to automate transaction recording, financial reporting, and data analysis activities. Through digitalization, organizations can improve efficiency, reduce human error, and enhance the accuracy, transparency, and accessibility of financial information (Husnain & Sohail, 2019). In the MSME context, digital accounting systems have become increasingly important as businesses seek to improve financial governance and competitiveness in the digital economy.

The Technology Acceptance Model (TAM) developed by Davis (1989) explains that the successful adoption of technology is influenced by users' perceptions of usefulness and ease of use. Likewise, the extended TAM framework proposed by Venkatesh and Davis (2000) emphasizes that external variables, including user experience and organizational readiness, significantly influence technology adoption outcomes. Consequently, the implementation of digital accounting systems among MSMEs is expected to improve information quality and operational efficiency when supported by adequate competencies and organizational support.

Recent empirical studies have demonstrated that accounting information system digitalization contributes positively to financial reporting quality and business performance. Hendrawati et al. (2024) reported that digital accounting systems improve accounting information quality and facilitate managerial decision-making. Similarly, Lutfi (2022) found that cloud-based accounting technologies enhance the quality and accessibility of financial information among MSMEs. However, the effectiveness of digitalization remains contingent upon user readiness, organizational culture, and the availability of supporting infrastructure (Thrassou et al., 2020).

1.2. Financial Reporting

Financial reporting refers to the process of communicating financial information generated by accounting systems to internal and external stakeholders. For MSMEs, financial reporting includes the preparation of income statements, balance sheets, cash flow statements, and explanatory notes prepared periodically to support business decision-making and accountability (Hassan & Saleh, 2019).

The adoption of digital technologies has transformed financial reporting practices by enabling real-time data access, improving data security, and supporting more accurate and timely reporting processes. Rosyada and Riyadi (2023) found that cloud computing applications strengthen financial information management among MSMEs, while Astuti and Handayani (2024) reported that digital financial recording systems facilitate more comprehensive financial analyses.

Furthermore, standardized financial reporting practices contribute to greater transparency and stakeholder trust. MSMEs that utilize digital financial reporting systems are better positioned to comply with reporting standards and demonstrate accountability to creditors, investors, and regulatory institutions (Wulandari & Hidayat, 2022). Consequently, financial reporting is expected to play an important role in enhancing the quality of MSME financial reports.

1.3. Quality of Financial Reports

The quality of financial reports reflects the extent to which financial information is relevant, reliable, understandable, and comparable. In the MSME context, high-quality financial reports support transparency, facilitate access to financing, and improve strategic decision-making processes (Jabbouri, 2016).

Information quality theory suggests that financial reports should provide timely and accurate information to support organizational performance evaluation and stakeholder confidence. The digitalization of accounting information systems is believed to improve financial reporting quality by generating more structured, documented, and accessible financial data (Fitriani & Fathoni, 2017).

Previous studies indicate that MSMEs utilizing digital accounting systems tend to produce higher-quality financial reports than those relying on manual recording methods (Hendrawati et al., 2024; Mutoharoh et al., 2020). Nevertheless, the realization of these benefits is influenced by organizational readiness, internal controls, and the competencies of technology users.

1.4. Digital Literacy

Digital literacy is defined as an individual's ability to access, understand, evaluate, and utilize digital technologies effectively, ethically, and responsibly. Within the MSME environment, digital literacy extends beyond technical competencies to include the capability to interpret digital information and apply technological solutions to business processes.

Human resource capability theory suggests that technology delivers optimal value only when supported by competent users. Therefore, digital literacy is considered a strategic factor in facilitating successful digital transformation among MSMEs. Business actors with strong digital literacy are more likely to adapt to

technological changes, optimize accounting systems, and improve the quality of financial information produced.

Recent studies have consistently demonstrated that digital literacy significantly influences technology adoption and digital transformation outcomes. MSME owners with higher levels of digital literacy are generally more capable of utilizing digital accounting systems, validating financial information independently, and supporting internal control activities. Accordingly, digital literacy is expected to strengthen the relationship between accounting information system digitalization, financial reporting, and financial reporting quality.

1.5. Hypothesis Development

Based on the Technology Acceptance Model (Davis, 1989), the extended TAM framework (Venkatesh & Davis, 2000), and information quality theory, accounting information system digitalization and financial reporting are expected to positively influence the quality of MSME financial reports. However, the effectiveness of these relationships is likely to vary depending on the level of digital literacy among MSME actors.

Digital accounting systems facilitate automatic, accurate, and integrated transaction processing, thereby improving information quality and organizational transparency. Similarly, effective financial reporting practices support accountability and enhance stakeholder confidence. Nevertheless, previous studies have reported inconsistent findings, suggesting the presence of moderating variables that influence the effectiveness of digital transformation initiatives.

In this study, digital literacy is proposed as a moderating variable because individuals with higher digital competencies are more capable of utilizing digital technologies to achieve organizational objectives. Therefore, the following hypotheses are proposed:

- H1: Accounting information system digitalization has a positive effect on the quality of financial reports of MSMEs in South Jakarta.
- H2: Financial reporting has a positive effect on the quality of financial reports of MSMEs in South Jakarta.
- H3: Digital literacy moderates the relationship between accounting information system digitalization and the quality of financial reports of MSMEs in South Jakarta.
- H4: Digital literacy moderates the relationship between financial reporting and the quality of financial reports of MSMEs in South Jakarta.

1.6. Research Framework

Based on the proposed hypotheses, this study conceptualizes accounting information system digitalization (X_1) and financial reporting (X_2) as independent variables influencing the quality of MSME financial reports (Y). Digital literacy (Z) is positioned as a moderating variable that may strengthen or weaken these relationships. The framework emphasizes that successful digital transformation among MSMEs is determined not only by technological adoption but also by the capabilities, readiness, and competencies of business actors in utilizing digital technologies effectively.

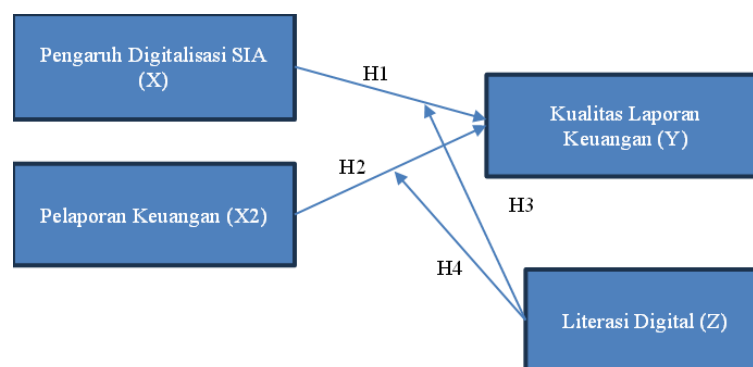


Figure 1. Research Framework

2. RESEARCH METHOD

This study employed a quantitative approach using an explanatory research design to examine the causal relationships among the variables under investigation (Creswell, 2014). The study specifically analyzed the effects of accounting information system digitalization (X_1) and financial reporting (X_2) on the quality of MSMEs' financial reports (Y), while also examining the moderating role of digital literacy (Z). A causal associative design was adopted to assess both direct and moderating effects among the proposed constructs (Sekaran & Bougie, 2016).

The population of this study consisted of Micro, Small, and Medium Enterprises (MSMEs) operating in South Jakarta. This area was selected due to its relatively high level of economic activity and digital technology

penetration compared to other regions in Indonesia. The sample was determined using a purposive sampling technique based on the following criteria: (1) MSMEs that had been operating for at least two years, and (2) MSMEs that had utilized or were familiar with digital-based financial recording systems in their business operations. A total of 50 respondents participated in this study.

Although the sample size is relatively small, its use is considered appropriate within the context of Partial Least Squares–Structural Equation Modeling (PLS-SEM). According to Hair et al. (2017), PLS-SEM is particularly suitable for exploratory and predictive research involving complex models, moderating variables, and limited sample sizes. Nevertheless, the relatively small sample size should be acknowledged as a limitation that may affect the generalizability of the findings beyond the South Jakarta MSME context.

Primary data were collected through a structured questionnaire distributed both directly and online to accommodate respondents' availability and accessibility. The questionnaire utilized a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (DeVellis, 2017). The measurement items were adapted from prior studies examining accounting information system digitalization, financial reporting, financial report quality, and digital literacy. Prior to data collection, the instrument underwent validity and reliability assessments to ensure that each indicator adequately measured its intended construct (Nunnally, 1978).

To minimize response bias and improve data accuracy, respondents were provided with brief explanations regarding the objectives of the study and several technical concepts, including accounting information system digitalization and digital literacy. In addition to primary data, secondary data in the form of journal articles, reports, and supporting documents were utilized to strengthen the theoretical framework and support the interpretation of findings.

Data analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with SmartPLS 3 software. The selection of PLS-SEM was based on its ability to accommodate relatively small sample sizes, non-normal data distributions, and moderating relationships (Hair et al., 2017). The analysis was performed in two stages: measurement model evaluation (outer model) and structural model evaluation (inner model).

The outer model assessment included tests of convergent validity, discriminant validity, and reliability. Convergent validity was evaluated using loading factor and Average Variance Extracted (AVE) values, while discriminant validity was examined to ensure empirical distinction among constructs. Reliability was assessed using Cronbach's Alpha and Composite Reliability (CR), with values greater than 0.70 generally considered acceptable indicators of internal consistency (Nunnally, 1978).

However, the findings revealed that several indicators exhibited relatively low loading factors and reliability values. In particular, some constructs did not fully meet the recommended thresholds for Cronbach's Alpha and Composite Reliability. Therefore, these measurement limitations should be considered when interpreting the results of this study and serve as an important consideration for future research involving MSMEs and digital transformation.

Subsequently, the structural model (inner model) was evaluated using the coefficient of determination (R^2), path coefficients, and p-values to determine the significance of direct and moderating relationships among the variables. The moderating role of digital literacy was examined using the interaction term approach available in SmartPLS, which is widely recognized as a standard procedure for moderation analysis in PLS-SEM (Hair et al., 2017). Additional analyses, including effect size (f^2) and predictive relevance (Q^2), were also conducted to evaluate the explanatory and predictive capabilities of the proposed model.

Furthermore, model fit was assessed using the Standardized Root Mean Square Residual (SRMR) and Normed Fit Index (NFI). The SRMR value obtained in this study exceeded the commonly recommended threshold of 0.10, indicating that the proposed model requires further refinement. Consequently, the findings should be interpreted with caution, and future studies are encouraged to refine the measurement instruments, increase sample sizes, and incorporate additional explanatory variables such as organizational culture, accounting competence, regulatory support, and internal control mechanisms.

Since PLS-SEM does not require classical assumptions such as normality, homoscedasticity, and multicollinearity to the same extent as covariance-based SEM or multiple linear regression, these assumptions were not formally tested (Hair et al., 2014). Overall, the methodological design adopted in this study is expected to provide empirical insights into the role of accounting information system digitalization and digital literacy in improving the quality of MSMEs' financial reports, while acknowledging the methodological limitations identified during the analysis process.

3. RESULTS AND DISCUSSION

3.1. Results

The descriptive analysis indicates that MSMEs in South Jakarta have demonstrated a moderate to relatively high level of digital adoption. The average score for accounting information system digitalization was 3.87, suggesting that most respondents have begun integrating digital technologies into their financial recording and reporting activities, although the implementation remains suboptimal. Financial reporting recorded an average score of 3.82, indicating that the financial reporting practices of MSMEs are generally

adequate. Similarly, the quality of financial reports obtained an average score of 3.79, while digital literacy recorded an average value of 3.78, reflecting a moderate level of digital competence among MSME owners and managers.

The results of the structural model analysis reveal that accounting information system digitalization has a positive effect on the quality of financial reports, with a path coefficient of 0.571. However, the relationship was found to be statistically insignificant ($p = 0.197 > 0.05$). Although the direction of the relationship is consistent with the Technology Acceptance Model (Davis, 1989), the findings suggest that the current level of digital adoption among MSMEs in South Jakarta has not yet translated into significant improvements in financial reporting quality.

One possible explanation is that the digital transformation process among MSMEs remains at an early stage of adoption. While respondents have adopted digital tools for financial management, many may still lack sufficient accounting competencies, organizational readiness, and effective internal control mechanisms necessary to maximize the benefits of digital technologies. Consequently, the availability of digital systems alone is insufficient to guarantee improvements in the quality of financial reporting.

Furthermore, financial reporting was also found to have no significant influence on the quality of financial reports, with a path coefficient of -0.135 and a p-value of 0.651 ($p > 0.05$). Although the relationship is negative, it is not statistically significant and therefore should not be interpreted as evidence that financial reporting negatively affects financial report quality. Instead, the findings may indicate inconsistencies in reporting practices, limited adherence to accounting standards, and variations in respondents' understanding of financial reporting procedures.

These findings are consistent with previous studies suggesting that technology utilization and reporting practices do not necessarily produce positive organizational outcomes in the absence of adequate competencies and institutional support (Lutfi, 2022; Ula, 2023). Accordingly, the quality of financial reporting among MSMEs should be viewed as a multidimensional construct influenced by technological, organizational, and human resource factors.

The moderating analysis further demonstrates that digital literacy does not significantly moderate the relationship between accounting information system digitalization and the quality of financial reports, as indicated by an interaction coefficient of -0.201 and a p-value of 0.263. Likewise, digital literacy does not moderate the relationship between financial reporting and financial report quality, with an interaction coefficient of 0.002 and a p-value of 0.989.

These results suggest that possessing digital competencies alone is insufficient to strengthen the effectiveness of digital accounting practices among MSMEs. Digital literacy may facilitate technology adoption; however, its impact appears to depend on complementary factors such as accounting knowledge, organizational support, and the integration of digital systems into routine business operations. Therefore, the non-significant moderating effect identified in this study should be interpreted within the broader context of MSME digital transformation rather than as evidence of the irrelevance of digital literacy.

The coefficient of determination (R^2) for the quality of financial reports was 0.348, indicating that accounting information system digitalization, financial reporting, and digital literacy collectively explain approximately 34.8% of the variance in financial report quality. Although this value falls below the commonly accepted threshold for a moderate explanatory model, it nevertheless demonstrates that the proposed variables contribute meaningfully to understanding financial reporting quality among MSMEs. The remaining 65.2% of the variance may be explained by other factors not included in the present study, such as organizational culture, accounting competence, internal control systems, regulatory support, and technological readiness.

In addition, the Standardized Root Mean Square Residual (SRMR) value obtained in this study was 0.135, exceeding the recommended threshold of 0.10. This finding indicates that the overall model fit has not yet reached the ideal level and suggests that further model refinement is necessary. Similarly, several indicators exhibited relatively low loading factors and reliability values, indicating limitations in the measurement model.

Therefore, the findings of this study should be interpreted cautiously. Despite these limitations, the study provides valuable empirical evidence regarding the challenges of digital transformation among MSMEs in Indonesia. More importantly, the results emphasize that improving the quality of MSME financial reports requires not only technological adoption but also stronger accounting competencies, organizational preparedness, and effective governance mechanisms to support sustainable digital transformation.

3.1.1. Validity Test

Table 1. Validity Test (Outer Loadings)

Indicator	AIS Digitalization	Financial Reporting Quality	Digital Literacy	Moderating Effect 1	Moderating Effect 2	Financial Reporting
Accounting Information System				0.905		

Digitalization × Digital Literacy		
Financial Reporting × Digital Literacy		0.983
X1.1	−0.253	
X1.2	−0.468	
X1.3	−0.465	
X1.4	0.705	
X1.5	0.336	
X1.6	0.341	
X1.7	0.352	
X1.8	0.081	
X2.1		0.200
X2.2		0.759
X2.3		−0.218
X2.4		0.409
X2.5		−0.635
Y.1	0.385	
Y.2	−0.246	
Y.3	−0.041	
Y.4	0.579	
Y.5	0.499	
Y.6	−0.390	
Y.7	0.589	
Y.8	0.446	
Z.1		0.678
Z.2		0.795
Z.3		−0.120
Z.4		−0.186
Z.5		0.345
Z.6		0.272
Z.7		0.205
Z.8		−0.057

Table 1 presents the results of the convergent validity assessment using outer loading values for each measurement indicator. According to Hair et al. (2019), indicators with outer loading values greater than 0.70 are generally considered acceptable measures of their respective constructs. However, indicators with values below this threshold may still be retained in exploratory studies if they provide theoretical relevance and do not substantially reduce the overall quality of the measurement model.

The results indicate that the Accounting Information System (AIS) Digitalization construct exhibits substantial variation across its indicators. Among the eight indicators, only X1.4 achieved the recommended threshold with an outer loading value of 0.705. Indicators X1.5 (0.336), X1.6 (0.341), X1.7 (0.352), and X1.8 (0.081) demonstrated relatively weak loadings, while X1.1 (−0.253), X1.2 (−0.468), and X1.3 (−0.465) produced negative loading values. These findings suggest that several indicators may not adequately capture the underlying dimensions of AIS Digitalization among MSMEs in South Jakarta. Therefore, future studies are encouraged to refine or replace these indicators through pilot testing and instrument validation procedures prior to data collection.

Similarly, the Financial Reporting Quality construct demonstrated relatively weak measurement properties. Indicators Y.1, Y.4, Y.5, Y.7, and Y.8 produced positive outer loading values ranging from 0.385 to 0.589, indicating moderate contributions to the construct. Conversely, indicators Y.2 (−0.246), Y.3 (−0.041), and Y.6 (−0.390) generated negative loading values, suggesting that they do not adequately represent the intended construct. These results imply that the measurement of financial reporting quality among MSMEs remains challenging and may be influenced by variations in respondents' understanding of accounting concepts and reporting practices.

The Digital Literacy construct also exhibited mixed results. Indicator Z.2 demonstrated a strong loading value of 0.795, while Z.1 achieved a loading value of 0.678, approaching the recommended threshold. However, the remaining indicators, namely Z.5 (0.345), Z.6 (0.272), Z.7 (0.205), Z.8 (−0.057), Z.3 (−0.120), and Z.4 (−0.186), showed relatively weak or negative loadings. These findings indicate that digital literacy, as measured in this study, may encompass dimensions that are not fully captured by the existing instrument. Consequently, future research should consider adopting more recent and contextually relevant measures of digital literacy, particularly those developed within the MSME and digital transformation literature.

In contrast, the moderating constructs demonstrated excellent convergent validity. The interaction term between AIS Digitalization and Digital Literacy (Moderating Effect 1) achieved an outer loading value of 0.905, while the interaction term between Financial Reporting and Digital Literacy (Moderating Effect 2) obtained a value of 0.983. Both values substantially exceed the recommended threshold of 0.70, indicating that the moderating constructs are measured consistently and reliably within the proposed PLS-SEM framework.

Overall, the validity assessment indicates that several indicators associated with AIS Digitalization, Financial Reporting Quality, and Digital Literacy do not satisfy the recommended convergent validity criteria. These findings represent an important limitation of the present study and should be considered when interpreting the empirical results. Nevertheless, given the exploratory nature of this research and the relatively small sample size, the findings continue to provide meaningful insights into the digital transformation challenges faced by MSMEs in South Jakarta. Future studies are encouraged to refine the measurement instruments, increase sample sizes, and incorporate additional validation procedures to improve the robustness of the proposed model.

3.1.2. Reliability Test

Table 2. Reliability Test Results

Construct	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Accounting Information System Digitalization	0.116	0.280	0.056	0.169
Financial Reporting Quality	0.215	0.374	0.337	0.187
Digital Literacy	-0.180	0.389	0.361	0.172
Moderating Effect 1	1.000	1.000	1.000	1.000
Moderating Effect 2	1.000	1.000	1.000	1.000
Financial Reporting	-0.380	0.295	0.066	0.247

Table 2 presents the reliability assessment results for all constructs included in the proposed PLS-SEM model. Reliability testing was conducted using Cronbach's Alpha, rho_A, Composite Reliability (CR), and Average Variance Extracted (AVE). According to Hair et al. (2019), Cronbach's Alpha and Composite Reliability values greater than 0.70 generally indicate satisfactory internal consistency, while AVE values exceeding 0.50 suggest acceptable convergent validity.

The results indicate that the Accounting Information System (AIS) Digitalization construct does not satisfy the recommended reliability criteria. The construct recorded a Cronbach's Alpha of 0.116, rho_A of 0.280, Composite Reliability of 0.056, and an AVE of 0.169. These values indicate weak internal consistency and limited convergent validity among the measurement indicators. The findings suggest that several indicators associated with AIS Digitalization may not adequately capture the intended construct within the MSME context.

Similarly, the Financial Reporting Quality construct demonstrated insufficient reliability, with a Cronbach's Alpha value of 0.215, rho_A of 0.374, Composite Reliability of 0.337, and an AVE of 0.187. These values remain substantially below the recommended thresholds, indicating that the indicators used in this study exhibit limited consistency in measuring the quality of financial reporting. This finding may reflect variations in respondents' perceptions and understanding of financial reporting practices among MSMEs.

The Digital Literacy construct also produced unsatisfactory reliability statistics. Specifically, the construct yielded a Cronbach's Alpha of -0.180, rho_A of 0.389, Composite Reliability of 0.361, and an AVE of 0.172. The negative Cronbach's Alpha value indicates substantial inconsistency among the indicators and suggests that several items may not be aligned conceptually. Therefore, the measurement instrument for digital literacy requires careful reconsideration and refinement in future studies.

Likewise, the Financial Reporting construct did not meet the recommended reliability standards. The construct recorded a Cronbach's Alpha of -0.380, rho_A of 0.295, Composite Reliability of 0.066, and an AVE of 0.247. These findings indicate inadequate internal consistency and highlight potential issues related to indicator selection and construct operationalization.

In contrast, Moderating Effect 1 and Moderating Effect 2 demonstrated Cronbach's Alpha, rho_A, Composite Reliability, and AVE values of 1.000. These values indicate perfect reliability and convergent validity for the interaction terms. Such results are commonly observed in PLS-SEM analyses involving single interaction constructs generated through product indicator approaches and should therefore be interpreted within the methodological context of moderation analysis.

Overall, the reliability assessment demonstrates that the primary constructs—namely AIS Digitalization, Financial Reporting Quality, Digital Literacy, and Financial Reporting—do not satisfy the recommended thresholds for internal consistency and convergent validity. These findings constitute an important methodological limitation of the present study and may partially explain the non-significant relationships identified in the structural model.

Nevertheless, considering the exploratory nature of this research, the relatively small sample size ($n = 50$), and the emerging state of digital adoption among MSMEs in South Jakarta, the results continue to provide valuable empirical insights into the challenges associated with digital transformation in the MSME sector. Future studies are strongly encouraged to conduct pilot testing, refine measurement items, employ larger samples, and adopt more contextually appropriate instruments to improve the psychometric properties of the proposed model and enhance the generalizability of findings.

3.1.3. PLS Assumption Test (Variance Inflation Factor)

Table 3. PLS Assumption Test (Variance Inflation Factor)

Indicator	VIF
Accounting Information System Digitalization × Digital Literacy	1.000
Financial Reporting × Digital Literacy	1.000
X1.1–X1.8	1.059–1.362
X2.1–X2.5	1.072–1.175
Y.1–Y.8	1.137–1.841
Z.1–Z.8	1.104–1.289

Table 3 presents the results of the Variance Inflation Factor (VIF) assessment conducted to evaluate the presence of multicollinearity among the indicators included in the PLS-SEM model. According to Hair et al. (2019), VIF values below 5.00 indicate that multicollinearity is not a concern and that the indicators do not exhibit excessive linear relationships with one another.

The findings reveal that the interaction constructs, namely Accounting Information System (AIS) Digitalization × Digital Literacy and Financial Reporting × Digital Literacy, each recorded a VIF value of 1.000. These values indicate the complete absence of multicollinearity and confirm that the interaction terms satisfy the collinearity assumptions required for moderation analysis within the PLS-SEM framework.

The indicators associated with the AIS Digitalization construct (X1.1–X1.8) produced VIF values ranging from 1.059 to 1.362. Likewise, the Financial Reporting indicators (X2.1–X2.5) demonstrated VIF values between 1.072 and 1.175. These results indicate that the indicators within both constructs are not excessively correlated and therefore satisfy the recommended multicollinearity thresholds.

Similarly, the Financial Reporting Quality indicators (Y.1–Y.8) exhibited VIF values ranging from 1.137 to 1.841. Although Y.8 demonstrated the highest VIF value (1.841), this value remains substantially below the recommended cut-off point of 5.00 and does not indicate problematic multicollinearity. The Digital Literacy indicators (Z.1–Z.8) also showed acceptable VIF values ranging from 1.104 to 1.289, indicating low levels of collinearity among the measurement items.

Overall, the VIF assessment demonstrates that all indicators included in the proposed model satisfy the multicollinearity assumptions of PLS-SEM. Consequently, collinearity does not appear to be a source of bias in the structural relationships examined in this study.

However, it is important to note that the absence of multicollinearity should not be interpreted as evidence of an overall strong measurement model. As discussed in the previous validity and reliability assessments, several constructs exhibited low outer loading values, weak Composite Reliability scores, and insufficient Average Variance Extracted (AVE) values. Therefore, while the indicators are statistically independent from one another, a number of them remain limited in their ability to consistently and accurately measure the intended latent constructs.

These findings suggest that the primary methodological challenge of the present study lies not in multicollinearity but rather in the psychometric quality of the measurement instrument. Future research is encouraged to improve indicator development through pilot studies, expert validation, and the adoption of more contextually appropriate measurement scales. Despite these limitations, the satisfactory VIF results indicate that the structural model can proceed to hypothesis testing and inner model evaluation without concerns regarding excessive collinearity among variables.

3.1.4. Coefficient of Determination (R^2)

Table 4. Coefficient of Determination (R^2)

Construct	R^2	Adjusted R^2
Accounting Information System Digitalization	0.141	0.123
Financial Reporting Quality	0.348	0.274
Financial Reporting	0.218	0.202

Table 4 presents the results of the coefficient of determination (R^2) analysis used to evaluate the explanatory power of the endogenous constructs included in the proposed PLS-SEM model. According to Hair et al. (2019), R^2 values of approximately 0.25, 0.50, and 0.75 may be interpreted as weak, moderate, and substantial levels of predictive accuracy, respectively.

The Accounting Information System (AIS) Digitalization construct recorded an R^2 value of 0.141 and an Adjusted R^2 value of 0.123. These findings indicate that approximately 14.1% of the variance in AIS Digitalization is explained by the predictor variables included in the model, while the remaining 85.9% is attributable to factors outside the scope of this study. Consequently, the predictive capability of this construct can be categorized as weak. The relatively small difference between the R^2 and Adjusted R^2 values further suggests that the inclusion of predictor variables does not substantially inflate the explanatory performance of the model.

The Financial Reporting Quality construct demonstrated the highest explanatory power among all endogenous variables, with an R^2 value of 0.348 and an Adjusted R^2 value of 0.274. This result indicates that the proposed model explains approximately 34.8% of the variance in the quality of MSMEs' financial reports. Although this value remains below the threshold typically associated with a moderate model, it nevertheless suggests that accounting information system digitalization, financial reporting, and digital literacy contribute meaningfully to explaining variations in financial reporting quality.

However, the remaining 65.2% of unexplained variance indicates the presence of additional factors that were not incorporated into the present study. Variables such as accounting competence, organizational culture, internal control systems, regulatory support, business size, technological readiness, and managerial commitment may play significant roles in influencing the quality of MSMEs' financial reports and should therefore be considered in future research.

Furthermore, the Financial Reporting construct recorded an R^2 value of 0.218 and an Adjusted R^2 value of 0.202. These findings indicate that approximately 21.8% of the variance in Financial Reporting is explained by the variables included in the model, while the remaining 78.2% is influenced by external factors. Accordingly, the explanatory power of this construct is also categorized as weak. Nevertheless, given the exploratory nature of this study and the relatively limited sample size, this level of predictive accuracy remains acceptable within the context of PLS-SEM research.

Overall, the coefficient of determination analysis demonstrates that the endogenous constructs exhibit weak to moderate explanatory capabilities. Among the constructs examined, Financial Reporting Quality displayed the strongest predictive performance, whereas AIS Digitalization and Financial Reporting exhibited comparatively lower explanatory power.

These findings are consistent with the broader results of the study, which indicate that digital transformation among MSMEs is a complex phenomenon influenced by multiple interrelated factors. Consequently, the relatively modest R^2 values observed in this study should not be interpreted as evidence of model failure but rather as an indication that the proposed framework captures only a portion of the broader determinants affecting MSME financial reporting practices.

Therefore, future studies are encouraged to expand the conceptual model by incorporating additional organizational, behavioral, and environmental variables to improve predictive accuracy and provide a more comprehensive understanding of the factors influencing digital adoption and financial reporting quality among MSMEs. In addition, larger and more geographically diverse samples are recommended to enhance the generalizability of the findings.

3.1.5. Effect Size (f^2)

Table 5. Effect Size (f^2)

Relationship	f^2	Category
AIS Digitalization → Financial Reporting Quality	0.335	Large
Digital Literacy → AIS Digitalization	0.165	Medium
Digital Literacy → Financial Reporting	0.278	Medium to Large
Moderating Effect 1 → Financial Reporting Quality	0.043	Small
Moderating Effect 2 → Financial Reporting Quality	0.000	No Effect
Financial Reporting → Financial Reporting Quality	0.018	Small

Table 5 presents the effect size (f^2) analysis, which evaluates the practical contribution of each exogenous construct to the endogenous variables within the PLS-SEM model. According to Hair et al. (2019), f^2 values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects, respectively.

The results indicate that Accounting Information System (AIS) Digitalization exerts the strongest influence on Financial Reporting Quality, with an f^2 value of 0.335. Although this value falls marginally below the threshold for a large effect, it can be interpreted as demonstrating a substantial practical contribution. This finding suggests that AIS Digitalization remains an important determinant of financial reporting quality among MSMEs, despite the relationship not reaching statistical significance in the hypothesis testing stage.

The discrepancy between the relatively large effect size and the non-significant p-value may be attributed to the limited sample size and the measurement issues identified in the validity and reliability assessments. Consequently, these findings imply that AIS Digitalization possesses meaningful explanatory potential, but the current study may not have had sufficient statistical power to detect its effect with greater precision.

Digital Literacy demonstrated two noteworthy effects within the structural model. First, it exhibited an f^2 value of 0.165 on AIS Digitalization, indicating a medium effect. This finding suggests that MSME actors with stronger digital competencies are more likely to adopt and utilize accounting information technologies effectively. Second, Digital Literacy produced an f^2 value of 0.278 on Financial Reporting, representing a medium-to-large effect. These findings collectively reinforce the argument that digital literacy plays an important role in facilitating digital transformation among MSMEs, even though its moderating role was not empirically supported in the present study.

The interaction between AIS Digitalization and Digital Literacy (Moderating Effect 1) generated an f^2 value of 0.043, indicating a small effect on Financial Reporting Quality. This result suggests that Digital Literacy contributes only marginally to strengthening the relationship between AIS Digitalization and Financial Reporting Quality. Similarly, the interaction between Financial Reporting and Digital Literacy (Moderating Effect 2) produced an f^2 value of 0.000, indicating the complete absence of a practical moderating effect within the model.

Furthermore, Financial Reporting demonstrated an f^2 value of 0.018 on Financial Reporting Quality, which is categorized as a small effect. This finding suggests that financial reporting practices alone contribute minimally to explaining variations in the quality of MSMEs' financial reports. It is possible that the effectiveness of financial reporting practices depends upon complementary factors, including accounting knowledge, internal control mechanisms, and organizational commitment to financial governance.

Overall, the effect size analysis reveals several important findings. First, AIS Digitalization exhibits the strongest practical influence on Financial Reporting Quality, highlighting the strategic importance of digital technologies in improving MSME financial management. Second, Digital Literacy demonstrates meaningful contributions to both AIS Digitalization and Financial Reporting, underscoring its relevance in supporting digital transformation initiatives. Third, the moderating effects provide limited or no additional explanatory power, indicating that Digital Literacy functions more effectively as an enabling factor rather than a moderator in the present context.

These findings provide additional insight into the structural model and complement the hypothesis testing results. Although several relationships were not statistically significant, the observed effect sizes suggest that digitalization and digital competencies remain practically relevant for MSMEs. Therefore, future studies employing larger samples, refined measurement instruments, and additional explanatory variables may be able to capture these relationships more accurately and provide stronger empirical evidence regarding the role of digital transformation in enhancing the quality of MSME financial reports.

3.1.6. Model Fit Indices (SRMR)

Table 6. Model Fit Indices (SRMR)

Indicator	Saturated Model	Estimated Model
SRMR	0.135	0.138
d_ULS	7.964	8.251
d_G	2.900	2.941
Chi-Square	552.247	558.345
NFI	0.023	0.012

Table 6 presents the model fit evaluation results using several commonly reported PLS-SEM fit indices, including the Standardized Root Mean Square Residual (SRMR), Unweighted Least Squares Discrepancy (d_ULS), Geodesic Discrepancy (d_G), Chi-Square, and the Normed Fit Index (NFI). Although PLS-SEM primarily emphasizes prediction rather than model fit, these indices provide useful information regarding the extent to which the proposed model represents the observed data (Hair et al., 2019).

The results indicate that the SRMR values are 0.135 for the Saturated Model and 0.138 for the Estimated Model. Both values exceed the recommended threshold of 0.10, suggesting that the overall model has not yet achieved an acceptable level of fit. This finding indicates that there remains a relatively large discrepancy between the empirical correlation matrix and the relationships implied by the proposed model.

Similarly, the Unweighted Least Squares Discrepancy (d_ULS) values of 7.964 and 8.251, as well as the Geodesic Discrepancy (d_G) values of 2.900 and 2.941, indicate that a noticeable degree of divergence exists between the theoretical model and the observed data. Although there are no universally accepted cut-off values for these indices in PLS-SEM, lower values are generally preferred and are indicative of better model representation.

Furthermore, the Chi-Square values obtained for the Saturated Model (552.247) and Estimated Model (558.345) are relatively large. While Chi-Square statistics in PLS-SEM should be interpreted cautiously due to their sensitivity to model complexity and sample characteristics, these values provide additional evidence that the proposed model does not fully capture the covariance structure of the observed data.

The Normed Fit Index (NFI) values of 0.023 and 0.012 are substantially below the ideal value approaching 1.00. Although NFI is considered a supplementary fit measure in variance-based SEM, these results further reinforce the conclusion that the overall model fit remains limited.

Collectively, the model fit indices suggest that the proposed structural model has not yet achieved satisfactory goodness-of-fit standards. However, these findings should be interpreted in conjunction with the broader methodological context of the study. As discussed in the previous sections, several indicators demonstrated low outer loading values and insufficient reliability statistics, which likely contributed to the poor model fit observed in the present analysis.

Moreover, the relatively small sample size ($n = 50$) and the exploratory nature of the research may have influenced the stability of the estimated parameters and overall model performance. Therefore, the poor fit indices identified in this study should not necessarily be interpreted as evidence that the underlying theoretical relationships are invalid. Instead, they suggest that the operationalization of the constructs and the measurement model require further refinement.

Despite the limitations associated with model fit, the present study continues to provide valuable empirical insights into the digital transformation experiences of MSMEs in South Jakarta. The findings highlight that improving the quality of MSMEs' financial reports is a multidimensional process involving not only technological adoption but also human competencies, organizational readiness, and effective governance practices.

Accordingly, future studies are encouraged to refine the measurement indicators, conduct pilot testing and expert validation procedures, simplify the structural model where appropriate, and employ larger and more diverse samples. These improvements are expected to enhance both the psychometric properties of the measurement model and the overall goodness of fit in subsequent investigations.

3.1.7. Complete Hypothesis Testing Results (Path Analysis)

Table 7. Complete Hypothesis Testing Results (Path Analysis)

Relationship	Original Sample	Sample Mean	STDEV	T Statistics	P Values	Interpretation
Accounting Information System Digitalization → Financial Reporting Quality	0.571	0.126	0.442	1.293	0.197	Not Significant
Digital Literacy → Accounting Information System Digitalization	0.376	0.223	0.464	0.811	0.418	Not Significant
Digital Literacy → Financial Reporting Quality	0.004	0.144	0.378	0.011	0.991	Not Significant
Digital Literacy → Financial Reporting	0.467	0.465	0.280	1.667	0.096	Not Significant*
Moderating Effect 1 → Financial Reporting Quality	-0.201	-0.010	0.179	1.121	0.263	Not Significant
Moderating Effect 2 → Financial Reporting Quality	0.002	0.011	0.176	0.014	0.989	Not Significant
Financial Reporting → Financial Reporting Quality	-0.135	0.084	0.299	0.453	0.651	Not Significant

Approaching significance at the 10% significance level.

Table 7 presents the results of the structural model evaluation using the bootstrapping procedure in SmartPLS 3. Hypothesis testing was performed by examining the path coefficients, t-statistics, and p-values associated with each relationship. A significance level of 5% ($p < 0.05$) was adopted as the primary criterion for hypothesis acceptance, although findings approaching the 10% level are also discussed to provide additional insight into potential trends within the data.

The results indicate that Accounting Information System (AIS) Digitalization has a positive relationship with Financial Reporting Quality, with a path coefficient of 0.571. However, the relationship was not statistically significant ($t = 1.293$; $p = 0.197$). Although the direction of the relationship is consistent with the Technology Acceptance Model (Davis, 1989) and prior studies emphasizing the benefits of digital accounting systems, the findings suggest that digitalization initiatives among MSMEs in South Jakarta have not yet matured sufficiently to generate significant improvements in financial reporting quality.

One possible explanation is that many MSMEs continue to experience challenges related to accounting competencies, technological readiness, and internal control mechanisms. Therefore, while digital technologies may provide operational advantages, their effectiveness appears to depend upon broader organizational and human resource capabilities.

The analysis further reveals that Digital Literacy does not significantly influence AIS Digitalization ($\beta = 0.376$; $t = 0.811$; $p = 0.418$). This finding suggests that possessing digital skills alone may not necessarily encourage MSMEs to adopt accounting information systems. External factors such as financial resources, managerial support, organizational culture, and access to technological infrastructure may play equally important roles in determining technology adoption decisions.

Similarly, Digital Literacy demonstrated virtually no direct effect on Financial Reporting Quality ($\beta = 0.004$; $t = 0.011$; $p = 0.991$). These results indicate that digital competencies alone are insufficient to improve the quality of financial reports. Financial reporting quality is likely influenced by a combination of factors, including accounting knowledge, compliance with reporting standards, and the implementation of appropriate governance practices.

Interestingly, Digital Literacy exhibited a positive relationship with Financial Reporting ($\beta = 0.467$), with a t -statistic of 1.667 and a p -value of 0.096. Although this relationship did not reach the conventional 5% significance level, it approached significance at the 10% level. This finding suggests that Digital Literacy may contribute to improved financial reporting practices among MSMEs, particularly in facilitating the use of digital tools and enhancing access to financial information. Therefore, this relationship warrants further investigation using larger samples and more robust measurement instruments.

The moderating effects examined in this study also failed to demonstrate statistical significance. Moderating Effect 1 (AIS Digitalization $\times$ Digital Literacy) yielded a path coefficient of -0.201 ($t = 1.121$; $p = 0.263$), indicating that Digital Literacy does not significantly strengthen or weaken the relationship between AIS Digitalization and Financial Reporting Quality. Likewise, Moderating Effect 2 (Financial Reporting $\times$ Digital Literacy) produced a negligible coefficient of 0.002 ($t = 0.014$; $p = 0.989$), indicating the complete absence of a moderating effect.

These findings suggest that Digital Literacy may function more appropriately as an antecedent or enabling variable rather than a moderator within the context of MSME digital transformation. In other words, digital competencies may support the adoption of digital practices directly but may not substantially alter the strength of the relationships between the primary constructs included in this study.

Finally, Financial Reporting was found to have a negative but statistically insignificant relationship with Financial Reporting Quality ($\beta = -0.135$; $t = 0.453$; $p = 0.651$). Although the coefficient suggests an inverse relationship, the absence of statistical significance indicates that no meaningful conclusions should be drawn regarding the direction of the effect. It is possible that inconsistencies in reporting practices, limited compliance with accounting standards, and differences in respondents' financial management capabilities contributed to this result.

Overall, the hypothesis testing results demonstrate that none of the proposed hypotheses were supported at the 5% significance level. While these findings may initially appear inconsistent with prior literature, they provide valuable insights into the current state of digital transformation among MSMEs in South Jakarta. Specifically, the results suggest that the implementation of digital technologies alone is insufficient to improve financial reporting quality without corresponding improvements in accounting competencies, organizational readiness, internal controls, and managerial commitment.

Moreover, the combination of weak measurement properties, relatively low explanatory power, and a limited sample size may have contributed to the non-significant findings observed in this study. Consequently, future research should employ larger samples, refined measurement instruments, and additional explanatory variables to provide a more comprehensive understanding of the factors influencing financial reporting quality in MSMEs.

Despite these limitations, this study contributes to the growing literature on MSME digitalization by demonstrating that successful digital transformation requires a holistic approach that integrates technology, human capabilities, and organizational support systems.



Figure 2. Results of the PLS-SEM Path Analysis Model

Figure 2 presents the results of the Partial Least Squares–Structural Equation Modeling (PLS-SEM) path analysis, illustrating the structural relationships among the constructs included in the proposed model. The

figure provides a visual representation of the direct and moderating effects, as well as the coefficient of determination (R^2) for the endogenous constructs.

The results indicate that Accounting Information System (AIS) Digitalization (X_1) demonstrates the strongest direct relationship with Financial Reporting Quality (Y), with a path coefficient of 0.571. Although this relationship is positive, the corresponding hypothesis test revealed that the effect is not statistically significant ($p = 0.197$). This finding suggests that the adoption of digital accounting technologies among MSMEs in South Jakarta has not yet resulted in significant improvements in the quality of financial reports, potentially due to limitations in accounting competencies, organizational readiness, and the effective utilization of digital systems.

Financial Reporting (X_2) exhibits a negative path coefficient of -0.135 toward Financial Reporting Quality. However, this relationship was likewise found to be statistically insignificant ($p = 0.651$). Therefore, the negative coefficient should not be interpreted as evidence of an adverse effect but rather as an indication that the relationship remains inconclusive within the present sample.

Digital Literacy (Z) demonstrates a negligible direct effect on Financial Reporting Quality, with a path coefficient of 0.004. This result further supports the conclusion that digital competencies alone are insufficient to improve the quality of financial reporting practices among MSMEs. Instead, digital literacy appears to function as a complementary capability that requires support from additional organizational and technical factors.

Regarding the moderating relationships, Moderating Effect 1 (AIS Digitalization $\times$ Digital Literacy) produced a path coefficient of -0.201 , while Moderating Effect 2 (Financial Reporting $\times$ Digital Literacy) yielded a coefficient of 0.002. Neither interaction effect was statistically significant, indicating that Digital Literacy does not substantially strengthen or weaken the relationships between the independent variables and Financial Reporting Quality.

Furthermore, the coefficient of determination (R^2) for Financial Reporting Quality is 0.348, indicating that approximately 34.8% of the variance in Financial Reporting Quality can be explained by the variables included in the proposed model. While this value suggests a meaningful level of explanatory power, it also indicates that a substantial proportion of the variance (65.2%) remains attributable to factors not examined in the present study.

Overall, Figure 2 illustrates that the structural model is primarily characterized by weak to moderate relationships among the constructs. The findings reinforce the conclusion that digital transformation among MSMEs is a multifaceted process that extends beyond technological adoption and requires adequate accounting competencies, organizational support, internal control mechanisms, and managerial commitment. Consequently, future studies are encouraged to expand the model by incorporating additional variables and refining the measurement instruments to improve both explanatory power and overall model fit.

3.2. Discussion

The findings of this study demonstrate that the digitalization of Accounting Information Systems (AIS) does not significantly influence the quality of MSME financial reports. Although the relationship is positive ($\beta = 0.571$), the p -value of 0.197 indicates that the effect is not statistically significant. From a theoretical perspective, this finding partially contradicts the Information Systems Success Theory and the Technology Acceptance Model (TAM), which suggest that digital technologies improve the timeliness, accuracy, and reliability of accounting information (Davis, 1989; Ismail & King, 2007). Nevertheless, the results are consistent with several recent studies indicating that the benefits of digital transformation among MSMEs are highly contingent upon organizational readiness, user competencies, and the effective integration of technological systems (Lutfi, 2022; Ula, 2023).

One plausible explanation is that many MSMEs in South Jakarta remain at an early stage of digital transformation. The adoption of digital accounting applications may still be limited to basic bookkeeping functions without being fully integrated into broader financial management processes. Consequently, the implementation of digital technologies has not yet translated into measurable improvements in financial reporting quality. This finding supports the argument of Thrassou et al. (2020) that digitalization should be viewed as a gradual process rather than an immediate determinant of organizational performance.

Furthermore, the quality of financial reports is influenced by multiple dimensions beyond technological adoption. Factors such as accounting knowledge, data accuracy, adherence to financial reporting standards, and internal control mechanisms remain critical determinants of reporting quality (Jabbouri, 2016). Therefore, the absence of a significant relationship suggests that digitalization alone is insufficient to guarantee high-quality financial reporting in the absence of complementary organizational capabilities.

The results also indicate that Financial Reporting does not significantly affect Financial Reporting Quality ($\beta = -0.135$; $p = 0.651$). Although the relationship is negative, it should not be interpreted as evidence that financial reporting adversely affects reporting quality. Rather, the findings suggest that financial reporting practices among MSMEs may still be largely administrative or compliance-oriented, with limited emphasis on accuracy, completeness, and consistency.

This finding differs from previous studies conducted in more established organizational settings, where financial reporting practices have been shown to contribute positively to accountability and information quality

(Laka & Suprasto, 2020). In the MSME context, however, reporting activities may not yet be supported by standardized procedures or adequate accounting expertise. Consequently, the preparation of financial reports does not necessarily translate into higher-quality financial information.

The findings further reveal that Digital Literacy does not significantly moderate the relationships between AIS Digitalization, Financial Reporting, and Financial Reporting Quality. The interaction effects for Moderating Effect 1 ($\beta = -0.201$; $p = 0.263$) and Moderating Effect 2 ($\beta = 0.002$; $p = 0.989$) indicate that Digital Literacy contributes little additional explanatory power to the model.

These results suggest that Digital Literacy may not function effectively as a moderating variable within the present research context. Instead, Digital Literacy appears to operate more appropriately as an enabling or antecedent factor that supports the adoption of digital practices rather than strengthening the relationships among the primary constructs. This interpretation is consistent with the observation that digital competencies alone do not automatically improve organizational outcomes unless accompanied by managerial support, training, and effective implementation strategies.

Although previous studies have reported positive relationships between Digital Literacy and organizational performance (Susanto & Meiryani, 2019), the present findings indicate that digital literacy, in isolation, is insufficient to influence the quality of financial reporting among MSMEs. Similarly, Ula (2023) emphasized the importance of human resource competencies in successful digital transformation, suggesting that broader capabilities including accounting expertise, strategic leadership, and organizational learning—may be more influential than digital literacy alone.

An additional explanation for the non-significant findings may be related to the psychometric limitations identified during the measurement model assessment. Several indicators exhibited low outer loading values, weak reliability coefficients, and inadequate convergent validity. These limitations may have reduced the ability of the model to capture the true relationships among the constructs. Furthermore, the relatively small sample size ($n = 50$) and the geographic focus on South Jakarta limit the generalizability of the findings and may have contributed to reduced statistical power.

Despite these limitations, the present study makes several important contributions. First, it extends the literature by explicitly examining Digital Literacy as a moderating variable within the context of MSME financial digitalization an area that remains relatively underexplored in emerging economies. Second, the findings contribute to the ongoing discussion regarding the multidimensional nature of digital transformation by demonstrating that technology adoption alone is insufficient to improve financial reporting quality.

From a theoretical perspective, the study reinforces the integration of Technology Acceptance Theory and Information Quality Theory by emphasizing that the effectiveness of digital technologies depends on the interaction between technological, organizational, and human factors. The findings further suggest that future studies should consider incorporating additional variables such as organizational readiness, internal control quality, managerial commitment, and accounting competence to achieve a more comprehensive understanding of MSME financial reporting quality.

From a practical standpoint, the results imply that policies aimed at strengthening MSMEs through digital transformation should not focus exclusively on technology adoption. Instead, policymakers and MSME support institutions should prioritize integrated capacity-building programs that combine digital skills development with accounting training, financial reporting standards, and business governance practices. Sustainable mentoring programs, continuous education initiatives, and broader institutional support are likely to be more effective in improving the quality of MSME financial reports than technology adoption initiatives alone.

In conclusion, the findings suggest that the digital transformation of MSMEs is a complex and gradual process. While digital technologies provide substantial opportunities for improving business practices, their effectiveness depends upon the readiness of organizations, the competencies of users, and the existence of appropriate supporting systems. Consequently, successful digitalization requires a holistic approach that integrates technology, human capabilities, and organizational preparedness to generate sustainable improvements in financial reporting quality.

4. CONCLUSION

This study concludes that neither the digitalization of Accounting Information Systems (AIS) nor Financial Reporting significantly influences the quality of MSME financial reports in South Jakarta. Although AIS Digitalization demonstrated a positive relationship with Financial Reporting Quality, the effect was not statistically significant. Likewise, Financial Reporting exhibited a negative but statistically insignificant relationship with Financial Reporting Quality. These findings indicate that the adoption of digital technologies and financial reporting practices among MSMEs has not yet translated into measurable improvements in reporting quality.

The results suggest that the digital transformation of MSMEs in South Jakarta remains at an early stage of implementation. Many MSMEs appear to have adopted digital tools primarily for administrative purposes, without fully integrating them into broader financial management and decision-making processes.

Consequently, the potential benefits of digitalization, such as improved accuracy, transparency, and timeliness of financial information, have not yet been fully realized.

Furthermore, Digital Literacy was not found to significantly moderate the relationships between AIS Digitalization, Financial Reporting, and Financial Reporting Quality. This finding indicates that digital literacy, while important, is not sufficient on its own to strengthen the impact of digitalization on financial reporting outcomes. Instead, the results suggest that Digital Literacy may function more appropriately as an enabling factor that supports technology adoption rather than as a moderating variable.

The findings also highlight the importance of complementary factors beyond technology adoption. Improvements in MSME financial reporting quality require adequate accounting competencies, compliance with financial reporting standards, effective internal control systems, organizational readiness, and sustained managerial commitment. Therefore, strengthening MSME financial management should involve a holistic approach that integrates technological capabilities with human resource development and institutional support mechanisms.

From a methodological perspective, the study identified several limitations that should be considered when interpreting the findings. The structural model produced an SRMR value of 0.135, indicating that the proposed model did not achieve the recommended level of overall fit. In addition, several measurement indicators exhibited low outer loading values, weak convergent validity, and unsatisfactory reliability statistics, including negative Cronbach's Alpha values for certain constructs. These findings suggest that the measurement instruments require further refinement to improve their psychometric quality.

Moreover, the relatively small sample size ($n = 50$) and the concentration of respondents within South Jakarta limit the generalizability of the findings. Future research is therefore encouraged to employ larger and more diverse samples, refine the measurement instruments through pilot testing and expert validation, and incorporate additional explanatory variables such as organizational culture, managerial support, accounting competence, and internal control quality.

Despite these limitations, this study contributes to the growing body of literature on MSME digital transformation by demonstrating that technology adoption alone is insufficient to improve financial reporting quality. Successful digitalization requires an integrated ecosystem that combines technological readiness, human capabilities, organizational support, and effective governance practices. Accordingly, policymakers, MSME development institutions, and business practitioners should prioritize comprehensive capacity-building initiatives to ensure that digital transformation efforts produce sustainable improvements in MSME financial reporting practices.

ACKNOWLEDGEMENTS

The authors would like to express their sincere gratitude to Universitas Teknologi Muhammadiyah Jakarta for its institutional support throughout the completion of this research. The authors also extend their appreciation to all Micro, Small, and Medium Enterprise (MSME) owners and managers in South Jakarta who generously participated in this study and provided valuable insights through their responses.

In addition, the authors would like to thank the editorial team and anonymous reviewers of the *International Journal of Management Science and Information Technology* for their constructive comments and valuable suggestions, which have significantly contributed to improving the quality, clarity, and academic rigor of this manuscript.

The authors acknowledge that this research would not have been possible without the cooperation and support of all parties involved.

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