International Journal of Economics, Business and Management Research

Vol. 3, No. 12; 2019

ISSN: 2456-7760

FACTORS AFFECTING THE QUALITY OF FINANCIAL REPORTING IN BUMN COMPANIES THAT LISTED IN INDONESIA STOCK EXCHANGE

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Abstract
This research aims to test empirically The Effect of Operation Cycle (X1), Sale Volatility (X2), Firm Size (X3), Firm maturity (X4) with Financial Reporting Quality (Y). The population of this research is the BUMN companies listed on the Indonesia stock exchange (idx). Method of sampling using a purposive sampling method, so that the number of samples in this research is the 14 companies. Data analysis techniques using descriptive statistics, classic assumption are test multikolinieritas, the autocorrelation test, normality test and heteroskedastisitas test. Hypothesis testing using multiple regression analysis. The result of this research partially indicate that the board of directors, the company's operating cycle (x 1), sales volatility (x 2), size of the company (x 3) and age (x 4) does not affect the quality of the financial reporting (y). The result of this research simultaneously indicate that the board of director, board of the company's operating cycle (x 1), sales volatility (x 2), size of the company (x 3) and age (x 4) does affect the quality of the financial reporting (y).

Keywords: operating, sales volatility, size, age, quality of the financial reporting.

1. Introduction

The quality of financial reporting is also known as accounting quality (Yadiati & Mubarok, 2017: 14). The quality of financial reporting is to convey information about the company's operations, especially cash flow, which is expected to be informed to Investors (Biddle et al, 2009). The quality of financial reporting can be viewed in two perspectives. The first view states that the quality of financial reporting is related to the overall performance of the company as reflected in corporate profits. The second view states that the quality of financial reporting is related to the performance of company shares in the capital market (Lev & Thiagarajan, 1993; Richardson, 2003 and Fanani, 2009).

This study wants to examine issues related to the measurement of the quality of financial reporting in terms of describing company's profit according to the first glance. In measuring the quality of financial reporting, this study uses an accrual model because it is relatively easy to collect data to measure the earnings of management. With the accrual model, the quality of financial reporting is associated with the practice of implementing earnings management (*earnings management)*. This model assumes that management has the authority to apply discretionary accruals. Managers have the freedom to manage corporate profits with the aim to maximize the desire of the manager (Yadiati & Mubarok, 2017: 43).

Nowadays there are so many problems in financial reports of the Government. The first case is financial statements of PLN's (unaudited). The authority of the financial services requires PLN to apply ISAK 8 concerning about the recording of lease transactions for the agreement about purchasing the electricity power between PLN and private electricity development companies. But in the financial statement (unaudited) PLN changed their accounting policy that used ISAK 8 to not use the ISAK 8 anymore. Another case also occurred at PT Pertamina, The government sets the retail price of the diesel oil that have the higher subsidise than the base price including taxes minus fixed subsidies.

This research was conducted with two approach. The first approach relates to the study of determinants that produce quality financial reporting. The focus of this approach is related to the internal factors of the company, whics is the characteristics of the company. These factors are dynamic *innate* factors (operating cycles and sales volatility) and static (company size and company age). The second approach relates to external factors which is the response from the user of information about the financial report (Pagalung, 2009 and Fanani, 2009). This research will focus on the characteristics of the company by studying dynamic factors (operating cycles and sales volatility), static (company size and company age).

This research is expected to provide the guidance for the company's management in order to make quality financial reporting that have benefit to investors and capital market analyst in measuring the quality of financial reporting. Then, the results of this research can be used to evaluate how the quality of financial reporting of BUMN companies listed on the Indonesia Stock Exchange.

2. Literature Review

2.1. Quality of Financial Reporting

The earnings management in this study was detected by using a discretionary accrual proxy developed by Kothari, et al. (2005). The stages of determining discretionary accruals are:

1. To calculate the total accruals using the cash flow approach :

   TACCit = NIit - CFOit

   Information:
   TACCit = Total accrual company i in year t
   NIit = Net profit after company's taxi in period t
   CFOit = Cash flow from operating activities of company i in period t

2. Determine the coefficient of accrual regression :

$$\frac{TACC_{it}}{TA_{it-1}} = \beta_1\left(\frac{1}{TA_{it-1}}\right) + \beta_2\left(\frac{\triangle REV_{it} - \triangle REC_{it}}{TA_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) + \beta_4\left(\frac{ROA_{it-1}}{TA_{it-1}}\right) + \varepsilon_{it}$$

Information:
TACCit = Total accrual company i in year t
TAit-1 = Total assets of company i at the end of year t-1
ΔREVit = The change of total revenue of company i in year t
ECRECit = The change of total net receivables of company i in year t
PPEit = Property, plant and equipment of company i in year t
ROAit-1 = Return on assets of company i at the end of year t-1
Ɛit = Error item

3. Determine non discretionary accruals

$$\mathbf{NDACC_{it}} = \beta_1\left(\frac{1}{TA_{it-1}}\right) + \beta_2\left(\frac{\triangle REV_{it} - \triangle REC_{it}}{TA_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) + \beta_4\left(\frac{ROA_{it-1}}{TA_{it-1}}\right) + \varepsilon_{it}$$

Information:
NDACCit = Non discretionary accrual of company i in year t
TAit-1 = Total assets of company i at the end of year t-1
ΔREVit = The change of total revenue of company i in year t
ECRECit = The change of total net receivables of company i in year t
PPEit = Property, plant and equipment of company i in year t
Ɛit = Error Item

4. Determine discretionary accruals

DACCit = (TACC / 〖TA〗 _(it-1)) - 〖NDACC〗 _it

Information:
DACCit = Discretionary accrual of company i in year t
TACCit = Total accrual company i in year t
TAit-1 = Total assets of company i at the end of year t-1
NDACCit = Non discretionary accrual of company i in year t

2.2. The Operating Cycle of Company

The operating cycle can be interpreted as the average time period between the purchase of inventory and cash income that will be received by the seller or can also be interpreted as a series of all transactions in which that a business generates their income and their cash income from the customers (Dechow & Dichev, 2002).

$$\text{Siklus Operasi Perusahaan} = \frac{(AR_{jt}+AR_{jt-1})/2}{Sales_{jt}/360} + \frac{(Inv_{jt}+Inv_{jt-1})/2}{COGS_{jt}/360}$$

Where :

〖AR〗 _it = company receivables j year t

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〖AR〗 _ (jt-1) = accounts receivable j the previous year

〖Inv〗 _jt = company inventory j year t

〖Inv〗 _ (jt-1) = company inventory j the previous year

〖Sales〗 _jt = company sales j year t

〖COGS〗 _jt = cost of goods sold by the company year y

2.3. Sales Volatility (X2)

Sales volatility is the degree of deployment of sales or the deployment index of the company's sales distribution (Dechow & Dichev, 2002).

Sales Volatility = (σ (〖Sales of 6 Years〗 _jt)) / Total Total Assets〗 _jt

Where :

〖Sales of 6 years〗 _jt = sales of company j from 2012-2017

〖Total assets〗 _jt = total company assets j year t

2.4. Company Size

Suwito & Herawaty (2005) states, company size is a scale where the size of a company can be classified according to various ways, including: total assets, log size, market value of shares, and others. Basically, the size of the company is only divided into 3 categories, which is the large companies, medium-size companies and small firms. The size of the company is the scale of the company (Dechow & Dichev, 2002).

Measurement:

Company Size = Total Asset Logarithm

2.5. Company Age

The age of the company is the length of the company operates (Fanani, 2009). The older the company, the less variability of discretionary accruals, so that the effect on the quality of financial reporting will be high (Dechow 1994 and Fanani 2009).

Measurement:

Company Age = Year of observation - Year of establishment

2.6. Hypothesis Development

2.6.1. The Influence of the Company Operating Cycle on the Quality of Financial Reporting

Dechow & Dichev (2002) states that a longer operating cycle of a company will result in a lower quality of financial reporting because a longer operating cycle can lead to greater uncertainty and estimation errors, thus resulting in a lower quality of financial reporting.

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Hidayat & Elisabet (2010) proved that the company's operating cycle as a control variable showed a significant effect on the quality of financial reporting. This is consistent with the results of research that has conducted by Pagalung (2009), that the operating cycle variable has a negative and significant effect on earnings quality. Negative influences indicate the longer the operating cycle of the company, the lower the quality of earnings will be.

H1: The company operating cycle affects the quality of financial reporting.

2.6.2. The Effect of Sales Volatility on the Quality of Financial Reporting

Sales are an important part of the company operating cycle in producing quality financial reporting (Fanani, 2009). Low sales volatility indicates high earnings ability in predicting future cash flows because the resulting profit does not contain much disruption (Dechow & Dichev 2002). The results of Fanani's study (2009), variable sales volatility has a positive and significant effect on the quality of financial reporting. A positive effect indicates that the higher the volatility of a company's sales, the lower the quality of financial reporting. This supports research that has conducted by Fanani (2009 and 2010), Nurwulandari & Saripujiana (2015), Purwanti (2010), and Kusuma & Sadjiarto (2014), that the Sales volatility variable has a positive and significant effect on the quality of financial reporting

H2: Sales volatility affects the quality of financial reporting.

2.6.3. The Effect of Company’s Size on the Quality of Financial Reporting

The Larger companies size have the higher quality financial reporting (Hidayat & Elisabet, 2010). The size of the company can affect the quality of financial reporting because it has the ability to diversify business portfolio effect variations and high political costs (Fanani, 2009). Nurwulandari & Saripujiana Research Results (2015), succeeded in providing evidence that company’s size has a significant effect on the quality of financial reporting. This influence shows that the larger the size of the company, the higher the quality of financial reporting information. This supports previous research from Pagalung (2006) and Fajri (2013), which is that company size variables have a significant influence on the quality of financial reporting.

H3: Firm size influences the quality of financial reporting.

2.6.4. Effect of Company Age on the Quality of Financial Reporting

The longer life of the company causes the company can be historically valued as having demonstrated fairness in delivering its financial statements and has stability in its performance so that the company's age has a significant effect on the quality of the company financial reporting. The older the age of the company, the less variability of discretionary accruals, so that the effect on the quality of financial reporting will be high (Dechow 1994). The results of research by Pagalung (2009) and Hidayat & Elisabet (2010), showed that the age variable had a significant effect on the quality of corporate financial reporting.

H4: The age of the company affects the quality of financial reporting.

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3. Research Method

This study uses two types of variables, that is the independent variable (operating cycle, sales volatility, company size and age of the company) and the dependent variable of financial reporting quality. The research method used in this research is descriptive verification method, where data is collected to find out the factors that influence the quality of financial reporting. The population in this study were all BUMN companies as many as 115 companies and the target population was BUMN companies listed on the Indonesia Stock Exchange (IDX) of 20 companies. The sample consisted of 14 companies with an observation period of 6 years so that the total observation period was 84. The type of data in this study was a combination of cross section and time series data which are called pooled data, and the data that used were secondary data in the financial statements of BUMN company that listed on the Indonesia Stock Exchange in 2012-2017. The financial statement data was obtained from the official website of the Indonesia Stock Exchange (IDX), that is www.idx.co.id. The technique of collecting data with documentation and study of literature. Data analysis techniques are using descriptive statistical analysis, classic assumption test and hypothesis testing with multiple regression analysis and the test of the significance of individual parameters (t statistical test).

4. Result and Discussion

4.1. Research Result

The results of this study can be seen in the following table 1:

Table 1. Results of multiple regression tests and t tests

Description	T_{count}	Sig	Standard	Kesimpulan
$SOPX_1$	1,539	,128	0,05	No Effect
$VOPX_2$	-1,720	,089	0,05	No Effect
SIZE X_3	1,078	,284	0,05	No Effect
UPX_4	-,727	,470	0,05	No Effect

1. The results of the t test on the operating cycle variable the significant value is 0.128 which means greater than 0.05, it can be concluded that the operating cycle has no partial effect on the quality of financial reporting.
2. The results of the t test on the variable of sales volatility have a significant value about 0.089, which means greater than 0.05, it can be concluded that sales volatility has no partial effect on the quality of financial reporting.
3. The results of the t test on company's size variables have a significant value about 0.284 which means greater than 0.05, it can be concluded that company size has no partial effect on the quality of financial reporting.

4. The results of the t test on the age of the company the significant value about 0.470 which means greater than 0.05, it can be concluded that the age of the company has no partial effect on the quality of financial reporting.

4.2. Discussion

The result of the analysis research by conducting several tests can be concluded that simultaneously the factors of quality of financial reporting which are proxied by the operating cycle, sales volatility, company size and company age affect the quality of financial reporting. However, partially the quality factors of financial reporting which are proxied by the operating cycle, sales volatility, company size and company age do not affect to the quality of financial reporting. The discussion of the research results of each variable can be explained as follows:

4.2.1. The Effect of Company Operating Cycles on the Quality of Financial Reporting

The operating cycle can be interpreted as the average time period between the purchase of inventory with cash collections that will received by the seller or a series of all transactions where a business generates their income and their cash income from the customers. The operating cycle of a company consists of the following transactions: (a) purchase of goods, (b) sale of goods, and (c) collection of receivables from customers. This cycle shows the sequence of transactions that are continuously repeate (Purwanti, 2010). The results of the analysis of the company operating cycle variables have a positive effect, the positive effect indicates that the higher of company operating cycle, then the quality of financial reporting will increase. The results of the H1 hypothesis regarding the effect of the company operating cycle on the quality of financial reporting shows that the significance value of 0.128> 0.05, which means that the company operating cycle has no effect on the quality of financial reporting, these results indicate the H1 hypothesis is not proven because it has no effect.

The length of the company operating cycle can be seen from the size of inventory turnover and accounts receivable turnover. The operating cycle does not affect the quality of financial reporting because the operating cycle calculated from the accounts receivable turnover and low inventory turnover will reduce the quality of financial reporting. The higher of the operating cycle of company, the better the quality of financial reporting in the company. These results are same with research by Fanani (2009 & 2010) and Nurwulandari & Saripujiana (2015), that the company operating cycle has no influence on the quality of financial reporting. However, this result is contradicting with some of the opinions of previous researchers such as Dechow & Dichev (2002), Pagalung (2009), Hidayat & Elisabet (2010) and Purwanti (2010) whose the result show that the company operating cycle influences the quality of financial reporting. Dechow & Dichev (2002) claim that a company that has the long operating cycle cause uncertainty, estimation and estimation errors where it can lead to lower accrual quality and lower earnings quality. The longer operating cycle causes uncertainty, makes accruals more dependent (noise) and less helpful in predicting cash flow in the future. This operating cycle can run well, an integrated information system is needed well (Napitupulu & Situngkir, 2016), so as to create the quality of financial reports in line with company expectations.

4.2.2. Sales Volatility on the Quality of Financial Reporting

Purwanti (2010) states, sales is a process where the needs of buyers and the needs of sellers can be realized, through the exchange of information and interests. Sales are the most important part of a company operating cycle to get the profits. Sales volatility is the degree of sales spread or the spread index of the company sales distribution (Dechow & Dichev, 2002). The analysis results of the variable volatility of sales have a negative effect, a negative effect indicates that the greater the volatility of sales, the quality of fonancial reporting will decrease. The results of the H2 hypothesis regarding the effect of sales volatility on the quality of financial reporting indicate that the significance value of 0.089> 0.05, which means that sales volatility has no effect on the quality of financial reporting, these results indicate the H2 hypothesis is not proven because it has no effect. Sales volatility does not affect the quality of financial reporting because low sales will produce a small profit, the company's goal will achieved when the company made more sales.

The more profit can generated, the quality of financial reporting will be more better, so that it can add investors in the company because the investors are interested with the quality of financial reporting. This result is contradicting with some of the opinions of previous researchers such as Dechow & Dichev (2002), Pagalung (2009), Fanani (2009 & 2010), Purwanti (2010), Kusuma & Sadjiarto (2014) and Nurwulandari & Saripujiana (2015) whose The results shows that sales volatility affects the quality of financial reporting. Purwanti (2010) states the low volatility of sales will be able to show earnings ability in predicting cash flow in the future.

4.2.3. The Effect of Company Size on the Quality of Financial Reporting

Suwito & Herawaty (2005) states, company size is a scale where classified small or large companies. Basically the size of the company is only divided into 3 categories, that is the large companies, medium size companies and small companies. The analysis results of company size variables have a positive effect, a positive effect indicates that the larger the size of the company, the quality of financial reporting will increase more. The results of H3 hypothesis regarding the effect of company size on the quality of financial reporting indicate that the significance value of 0.284> 0.05, which means that the size of the company has no effect on the quality of financial reporting, these results indicate the substantiation of the H3 hypothesis because it has no effect.

Companies that have a large total assets show that the company has reached the stage of maturity where in this stage the company has good prospects in a relatively long period of time (Purwanti, 2010). This allows management to practice the earnings management by providing information according to the need to attract the investors to invest in companies so the quality of financial reporting will decrease. So the size of the company does not determine the high quality of financial reporting.. This result is the same with research by Fanani (2009), Hidayat & Elisabet (2010), and Purwanti (2010), which is that the size of the company has no influence on the quality of financial reporting. The results of this study do not support the previous researchers such as Pagalung (2009), Fajri (2013) and Nurwulandari & Saripujiana (2015) which show that company size show influences the quality of financial reporting. The size of the company can affect the quality of financial reporting because it has the ability to diversify business portfolio effect variations and high political costs (Fanani, 2009).

4.2.4. The Effect of Company Age on the Quality of Financial Reporting

Fanani (2009) states the age of a company is the length of a company operating while according to Evan (1987), The company age is an important determinant of company dynamics. The possibility of company failure, company growth, and variability of decreasing company growth is the age of the company. The analysis results of the company age variable have a positive effect, a positive effect indicates that the longer the company age, the quality of financial reporting will increase more. The results of H4 hypothesis regarding the influence of the age of the company on the quality of financial reporting indicate that the significance value of 0.470> 0.05 which means that the age of the company has no effect on the quality of financial reporting, these results indicate the substantiation of the H4 hypothesis because it has no effect. The longer the age of the company can not improve the quality of financial reporting because companies that have more experience will know the need for information about the company. So it is probable that management practices earnings management which causes the quality of the company's financial reporting to below.

This result is in line with research by Fanani (2009), Purwanti (2010) and Nurwulandari & Saripujiana (2015), which is the age of the company has no influence on the quality of financial reporting. But not in accordance with the results of research Pagalung (2009) and Hidayat & Elisabet (2010), which shows that the age of the company affects the quality of financial reporting. Dechow (1994) states, The longer life of a company causes the company to be historically valued as having demonstrated fairness in delivering its financial statements and has stability in its performance so that the company's age has a significant effect on the quality of the company's financial reporting.

5. Conclusion

This research was conducted to examine the influence of factors that influence the quality of financial reporting that is proxied by the company's operating cycle, sales volatility, company size and company age on the quality of financial reporting of SOEs listed on the IDX. Based on the results of research that has conducted it can be concluded that the company's operating cycle does not affect the quality of financial reporting, this shows the longer or shorter the operating cycle of the company in the company can not affect the quality of financial reporting. Sales volatility does not affect the quality of financial reporting, this shows that the higher or lower sales volatility within a company cannot affect the quality of financial reporting. The size of the company does not affect the quality of financial reporting, this shows that the greater or smaller size of the company can not affect the quality of financial reporting. The age of the company does not affect the quality of financial reporting, this shows the longer age of the company can not affect the quality of financial reporting. This research is expected to provide an explanation that the company's short operating cycle, low sales volatility, large company size and long company life will improve the quality of financial reporting.

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