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Profit reporting and quality analysis of profit to shareholders in past of pandemic era

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Abstract--This paper aims to know about profit reporting and describes about the quality analysis of profit to shareholders in Pandemic Era. The methods use is quantitative methods. The test results prove that dividend distribution status has a positive relationship to earnings quality (companies that distribute dividends have better earnings quality than companies that do not distribute dividends). Thus, companies that pay dividends are empirically proven to have higher discretionary accruals, higher standard deviations, and absolute error values in projecting accruals to cash flows, and have earnings that are more relevant in predicting future firm value.

Keywords--profit reporting, quality analysis of profit, earnings quality.

Introduction

In selecting the source of funds, the company can choose sources of funds that come from within (internal) and from outside (externally) the company. Funding originating from within the company consists of retained earnings after tax (retained earnings) and depreciation funds (depreciation/amortization), while funding from outside the company consists of third-party loans and own capital. (Santoso, 2020). Profit is one indicator that can be used to measure the company's operational performance. Information on profit measures the success and failure of the business in achieving the stated operating objectives. Both creditors and investors use earnings to evaluate management performance, estimate earnings powers and predict future earnings.

According to (Tampubolon, 2020) earnings quality is one of the important factors to determine the value of a company. Companies that have good earnings quality can estimate the characteristics of the earnings process that are relevant for decision making. So, managers as company managers must be able to make profit reports that have good quality in the financial statements.

The importance of earnings information has been explicitly stated in Statement of Financial Accounting Concept (SAFC) No. 1 which states that in addition to assessing management performance, earnings also help to estimate the ability of a representative profit, as well as to assess risk in investment or credit. Profit information reported by the company's management will be used by investors to invest their funds or predict future profits. Investors buy shares when they believe that future earnings can increase the share price.

Good earnings quality will automatically affect the company's value, which continues to increase. Conversely, if the quality of earnings is bad, the company value will decrease. High company value will affect shareholders who will always invest their capital in the company because later shareholders will get multiple benefits from the investment (Putra et al., 2020).

The low quality of earnings in the financial statements can make users such as company management and external parties make mistakes in decision making so that the value of the company decreases. The size of an earnings quality can predict stock price movements for the future so that the stock price will directly affect the value of the company.

Information about the value of the company can be known by analyzing the company's financial statements by the interests of the users of the report. The financial report is a record of the company's financial information that contains the results of the company's performance in an accounting period. The value of the company will be reflected through the company's performance which will show the prospects of a company going forward. The company will have good prospects or not in the future, it can be known by considering the factors that can influence this. One of the influencing factors is capital structure and profitability. The capital structure is an illustration of the form of the company's financial proportions, namely between owned capital sourced from long-term debt (long-term liabilities) and own capital (shareholders equity) which is a source of financing for a company (Fahmi, 2013). Debt owed by the company is related to the profits to be obtained by the company. Leverage is a financial ratio that describes the relationship between a company's debt to capital and company assets that is used as a measuring tool for capital structure (Liu et al, 2022). A high level of the leverage ratio will be considered profitable if it can increase the company's profitability, but high leverage will also have an impact on the risk of bankruptcy (Hacini, 2022).

Earnings quality can also be affected by the Investment Opportunity Set (IOS). IOS is an opportunity for companies to grow. IOS is used as the basis for determining the classification of the company's future growth (Ilham et al., 2022). The IOS value depends on the expenditures determined by management in the future (future discretionary expenditure) which at this time are investment

choices that are expected to generate returns that are greater than the cost of equity and can generate profits. The manager's actions become unobservable which can cause the principal to not know whether the manager has taken actions that are by the principal's wishes or not. The Investment Opportunity Set (IOS) of a company can also affect the way managers, owners, investors, and creditors view the company. Companies that have high growth opportunities are considered to be able to generate high returns.

Companies with high leverage cause investors to have less confidence in the profits published by the company. Investors assume that the company will prioritize paying debts to debtholders rather than paying dividends (Cheng-Wen, 2022). Therefore, the higher the level of corporate leverage, the lower the earnings quality due to an indication that the company's management practices management which states that there is a significant negative effect between leverage on earnings quality.

Quality financial reports in this case the quality of earnings are expected to help investors and potential investors to make decisions (Safira et al., 2020). Earnings quality is a major concern for users of financial statements for investment and contractual purposes. Information about the company's earnings must be of good quality to support quality investment decisions. If the information about earnings is not of good quality, then investors can invest in companies with high profits but low quality. Investment decisions or contract decisions based on poor quality earnings can lead to wealth transfer errors because poor quality earnings will give a bad signal.

The existence of a gap between the stock market value and book value shows that the capital market does not believe in the financial statements and cash flows promised. A study in New York that compared the market value and book value of 300 companies in the United States for 2 decades, proved a dramatic increase in the value of intangible assets (Dzenopoljac et al., 2022). The existence of a gap or gap between market value and book value causes investors in assessing the company to look at factors other than the book value of equity presented in the company's financial statements, namely the market value of the equity.

Research (Wasan et al, 2022) investigates whether future stock returns reflect information about current earnings quality. The results of this study indicate a negative relationship between accruals and future stock prices. Companies with high accruals indicate the quality of the company's earnings is low, and the company will experience a decrease in stock returns in the future. The results of the research above indicate the quality of earnings contained in financial reporting will increase the value of the company which is reflected in stock returns. The effect of earnings quality on firm value but using different samples and periods. This study explains the effect of earnings quality on firm value with market reaction as an intervening variable in mining companies listed on the Indonesia Stock Exchange.

Theoretical Basis

Earnings Quality

Profit is an illustration of the results of the company's performance in an achievement obtained, considering that the main goal when establishing and running a company is to obtain the maximum profit. Earnings quality is the level of difference between reported net income and actual earnings so that quality earnings reflect the company's actual financial performance without any manipulation (Arslan-Ayaydin et al, 2022). Earnings quality is also an indicator to measure the quality of the company's financial information, the high quality of financial information comes from the high quality of financial reporting (Hasibuan et al, 2020). Earnings are said to be of quality if they can describe the condition of the company in its actual state, have the characteristics of relevance, reliability, and comparability or consistency (Tarighi et al, 2022).

Meanwhile, according to (Tran, 2022) earnings quality is information on the financial statements of a company that accurately reflects business activities, so that it has quality earnings. Earnings quality can be measured by various measures, namely the ratio of operating cash to earnings, changes in total accruals, abnormal estimates, discretionary accruals (abnormal accruals/DA), and estimates of the relationship between cash accruals.

Quality earnings quality is accounting earnings that have little or no perceptual disturbances in them and can reflect the actual financial performance of the company. The four groups for determining earnings quality can be summarized as follows: First, based on the time-series nature of earnings, earnings quality includes persistence, predictability (predictability), and variability. Based on persistence, quality earnings are persistent profits, namely sustainable profits, more permanent and not transitory.

Persistence as earnings quality is determined based on the perspective of its usefulness in decision making, especially in equity valuation. Predictive ability shows the capacity of earnings to predict certain items of information, such as future earnings. In this case, high-quality earnings are profits that have a high ability to predict future earnings. Based on the variability construct, high-quality earnings are profits that have relatively low variability or smooth profits.

Profit Quality and Company Value

In general, financial statements are made to convey information about the company's financial condition for a period to interested parties. Users of financial statements can use this information as a basis for making decisions and alternative uses of limited company resources (Deng and Zhao, 2022). Stakeholders who use this financial information include investors or potential investors, creditors or potential creditors, partners, customers, employees, government agencies, and the public. Management's activity of doing income smoothing is motivated by management's desire to increase the value of the company.

The results of this study provide evidence that stock prices appear to be falsifying earnings, failing to reflect the accrual and cash flow components of earnings, until the information results in future earnings. Earnings that are reported to be greater than operating cash flows (high accruals), will experience a decline in earnings performance in the next period. Meanwhile, falling stock prices are an implication of current accruals for earnings in the coming period, as well as making it easier to predict the pattern of returns for companies with high accruals.

Methods

The object of this research is companies listed on the Indonesia Stock Exchange (IDX), especially manufacturing companies. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange. The sample in this study was manufacturing companies listed on the Indonesia Stock Exchange. Sampling was done by purposive sampling. The variables to be studied are classified into dependent variables and independent variables.

The analysis used is multiple linear regression analysis which is used to test the effect of several independent variables (independent) on several dependent variables. To test the hypothesis that has been built, the following is the equation of the regression model:

$$EQ_{i,t} = \alpha_0 + \alpha_1 DIV_{i,t} + \alpha_2 DIV_SIZE_{i,t} + \alpha_3 DIV_CHANGE_{i,t} + \alpha_4 PDIV_{i,t}$$

Where:

- $EQ_{i,t}$: Earnings quality proxied by $TACC_{i,t}$
- $Div_{i,t}$: Dividend payment status, which is valued at 1 if the company pays cash dividends in year t , and 0 otherwise.
- $DIV_SIZE_{i,t}$: The number of large dividends is given a value of 0 if the criteria are not met, while a value of 1 is for companies that will distribute large cash dividends. The total amount of dividends is categorized by the value of the dividend payout ratio.
- $DIV_CHANGE_{i,t}$: The increase in the size of the number of dividends is assigned a value of 1 if the company increases the number of dividends paid from year $t-1$ to year t , and 0 otherwise.
- $PDIV_{i,t}$: Dividend persistence, given a value of 1 if the company pays cash dividends continuously from $t-4$ to t , and 0 otherwise.

Results of Discussion And Discussion

The adjusted R^2 value is positive, namely 0.275 (27.5%). This means that 72.50% is influenced by other variables that are not included in the research model. The results of the above test can be obtained that the calculated F value is 6.477. The calculated F value is greater than the F table value of 1.87. That is, this research model is significant because the probability value is $0.000 < 0.05$. So, it can be concluded that the independent variables in this model together can explain the dependent variable.

The t-test was used to prove the hypothesis and also to find out whether companies that distribute dividends (DIV), distribute large dividends (DIV_SIZE), increase dividends distribution (DIV_CHANGE), and dividend distribution persistence (PDIV) have earnings quality (proxied by TACCI, t) which is better than companies that do not do so. Here are the test results in Table 1:

Table 1. Statistical Result Test

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-3.563	.933	-3.820	.000
	DIV	.138	.038	3.661	.000
	DIV_SIZE	.123	.052	2.343	.020
	DIV_CHAN GE	.051	.030	1.709	.089
	PDIV	.122	.083	1.473	.142

The Table 1 above shows the effect of the independent variable on the dependent variable. The value of the dividend distribution regression coefficient (DIV) is 0.138 and the t-count value is 3.661 (t-count < table) with a significance value of 0.000 < 0.05. A positive coefficient value indicates a company that distributes dividends and the value is significant so that the first hypothesis is accepted.

The test results for the large dividend distribution variable (DIV_SIZE) have a regression coefficient value of 0.123 and at-count value of 2.343 (t-count > t-table) with a significance value of 0.020 < 0.05. The positive coefficient value indicates that companies that distribute large amounts of dividends have higher earnings quality and the value is significant, so the second hypothesis is accepted. The test results for the variable increase in the number of dividends (DIV_CHANGE) have a regression coefficient of 0.051 and an at-count value of 2.343 (t-count > t-table) with a significance value of 0.089 > 0.05. The positive coefficient value indicates that companies that increase the number of dividends have higher earnings quality and the value are not significant, so the third hypothesis is rejected.

The results of testing the dividend distribution persistence variable (PDIV) have a coefficient value of 0.122 and at-count value of 1.473 (t-count < t-table) with a significance value of 0.142 > 0.05. The positive coefficient value indicates that companies that persistently distribute dividends have higher earnings quality and the value is not significant, so the fourth hypothesis is rejected. The following are the results of the regression equation and the results of the hypothesis test results:

$$EQ = -3,563 - 0,138DIV + 0,123DIV_SIZE + 0,051DIV_CHANGE + 0,122PDIV + \varepsilon$$

The income statement presented in the company's financial statements must be presented properly because the profit report affects the value of the company. The profit report will be used by investors in making investment decisions. The capital

market has several characteristics, namely the behavior of very sensitive investors, an investor who invests today in a country but the next day the investor withdraws his invested funds. Investor behavior is based on information on the value of a company, where information on the value of the company can provide positive or negative information. So, good earnings quality can provide good profit information which will make investors interested in investing to increase market reaction and rate of return. The increasing market reaction has an impact on the value of the company because it can make the value of a company continue to increase.

Conclusion

The results of the empirical test in this study were concluded as follows :

1. The test results prove that dividend distribution status has a positive relationship to earnings quality (companies that distribute dividends have better earnings quality than companies that do not distribute dividends). Thus, companies that pay dividends are empirically proven to have higher discretionary accruals, higher standard deviations, and absolute error values in projecting accruals to cash flows, and have earnings that are more relevant in predicting future firm value.
2. The results show that the size of the dividend indicates the quality of earnings. In this case, there is sufficient evidence to state that companies that distribute large dividends have better earnings quality than companies that distribute small dividends. The results of this study are contrary to the results of Tong and Miao's (2011) research.
3. The results show that the increase in dividend size does not indicate earnings quality. Because the company's dividend policy must pay attention to various factors first before being distributed. For example, in the residual dividend model, where before distributing dividends or increasing the size of dividends, the company considers the company's investment opportunities, capital structure, and retained earnings for capital needs, if there is residual profit then dividends will be distributed.
4. The results show that the persistence of dividend distribution does not indicate earnings quality. Because persistent dividend distribution can only be done by companies that have good fundamentals and have a relatively stable income.

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