Quality of Disclosure of Financial Accounting Information, on Cash Flows, and Company's Financial Performance

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Abstract

Detailed disclosures of the company's financial statements and cash flows provide an overview of the company's actual performance. The purpose of this study was to prove and analyze: 1) The quality of accounting information disclosure has a significant effect on cash flow; 2) The quality of accounting information disclosure has a significant effect on the company's financial performance; 3) Cash flow has a significant effect on the company's financial performance. This research was conducted at all manufacturing companies listed on the Indonesia Stock Exchange using purposive sampling method. This research is a quantitative analysis using Partial Least Square (PLS). The results of the analysis show that: 1) The quality of Financial Accounting Information Disclosure has a significant effect on cash flow. The higher the quality of disclosure of financial accounting information, the higher the cash flow. 2) The quality of financial accounting information disclosure does not have a significant effect on financial performance. Users reduce dependence on firm performance because of less important measures of accounting risk and tend to engage in speculative trading. 3) Cash flow has a significant effect on financial performance. The higher the cash flow, the higher the financial performance.

Keywords:
Quality of Financial Accounting Information Disclosure, Cash Flow, and Company Financial Performance.

1. Introduction

Financial accounting information is generated by management, and management knows this information will be used as input in the governance process (Ilona, Desi and Zaitul). Financial accounting information is carried out through disclosure of financial statements (Hendriksen 2002) which is a way to convey information contained in a company's financial statements. The full disclosure principle requires the disclosure of all circumstances and events that make a difference to users of financial statements. The importance of disclosure in the future (Wolk et al. 1991) in Subroto (2004) is because the business environment is increasingly complex and the capital market is able to absorb and reflect new information in stock prices quickly (in Tanor 2009).

One of the factors that underlie investors' decisions in investing (Hidayah 2008) is the company's financial statements. Detailed disclosures in the financial statements will provide an overview of the company's actual performance. Companies that have implemented corporate governance and transparency have better quality, and are more trusted by creditors and investors. This causes the company to become more liquid and share prices will increase. Overall, the market performance will be better

The liquid state of a company can be seen from the amount of current assets it has, which is more than double the total current liabilities (current liabilities). The most liquid asset is cash which is presented in the cash flow statement. Financial reports (Kusno 2004), especially those relating to information on changes in cash flow and corporate accounting earnings, are important information that investors can use to assess company performance. A higher increase and the positive effect of accounting earnings and cash flow components consisting of operating cash flow, investment and financing (Oktavia 2008) can increase firm value and increase shareholder wealth in the form of increased share prices.

The formulation of the problem examined in this paper is as follows: 1) Does the quality of accounting information disclosure affect cash flow. 2) Does the quality of accounting information disclosure affect the company's financial performance. 3) Does cash flow affect the company's financial performance.

1.1 Objectives

The objectives of this study are to: 1) Proving and analyzing the effect of the quality of accounting information disclosure on cash flows. 2) Proving and analyzing the influence of the quality of accounting information disclosure on the company's financial performance. 3) Proving and analyzing the effect of cash flow on the company's financial performance.

2. Literature review

The following is a literature review on (1) the variable Quality of Financial Accounting Information Disclosure, including Financial Accounting Information, Quality of Disclosure, (2) Cash Flow variables, (3) Company Financial Performance.

2.1. Quality of Financial Accounting Information Disclosure

2.1.1. Financial Accounting Information

Financial accounting information is a product of corporate accounting and external reporting systems that measure and openly disclose quantitative data about the financial position and performance of public companies (Bushman & Smith 2001). This is researched by Bushman & Smith 2003) in Transparency, Finance, Accounting Information, and Corporate Governance providing a summary of the research results, that financial accounting information can affect investment, productivity, and value-added companies through three channels. The first channel involves the use of financial accounting information by managers and investors in identifying promising investment opportunities. The second channel is the use of financial accounting information in a disciplined corporate manager's control mechanism for direct resources to the identification of good projects and away from badly identified projects. The third channel is the use of information.

Financial accounting information in the form of financial reports and financial report notes. Financial reports are important information for investors in making investment decisions. The benefits of these financial reports are optimal for investors if investors can further analyze them through financial ratio analysis (Penman 1991 in Tuasikal 2002). Financial ratios (Horigan 1965 in Tuasikal 2002) are useful for predicting the company's financial difficulties, operating results, current and future financial conditions of the company, and as a guide for investors regarding past and future performance.

2.1.2. Quality of disclosure

The definition of disclosure level is the level of disclosure of information provided as an attachment to financial statements in the form of footnotes or additions. This information provides a more complete description of the company's financial position and results of operations. Explanatory information regarding financial health can also be provided in the examination report. All material must be disclosed, including quantitative and qualitative information that will greatly help users of financial statements (Siegel and Shim 1994 in Tanor 2009).

The Statement of Financial Accounting Standards / SFAS 105 (paragraphs 71-86) issued by the Financial Accounting Standards Board / FASB in Johnson (1992) and Tanor (2009) states that there are four objectives of disclosure, namely: a) Describes an item that is recognized and provides relevant measurements for that item in addition to the measurements contained in the financial statements. b) Describes the unrecognized item and provides a useful measurement for the unrecognized item. c) Provide information that can assist investors and creditors in considering the risks and potentials of recognized and unrecognized items. d) Provide important interim information while other accounting issues are still being studied in more depth.

Disclosure of information in the financial statements is carried out to protect the rights of shareholders, which tend to be neglected due to the separation of the management who manages the company and the shareholders who own the capital. Detailed disclosure of segment information will reduce information asymmetry between management and investors. Disclosure about segments (Scott 2000 in Fitriany and Aulia 2011) will make it difficult for management to hide the poor performance of one segment with good performance from other segments. The more detailed a disclosure is, the higher the quality of the disclosure will be, and the analyst will have more information needed so that he can perform a better analysis.

Companies are encouraged to present a financial analysis that explains the main characteristics that affect their financial performance, financial position and uncertainty conditions (PSAK No. 1 Paragraph 08). The management of the company is responsible for the preparation and presentation of the company's financial statements (PSAK No. 1 Paragraph 06). All material must be disclosed including quantitative and qualitative information that will be of great help to users of financial statements (Siegel and Shim 1994).

Disclosure of financial statements (Hendriksen 2002) is a way to convey information contained in a company's financial statements. The full disclosure principle requires disclosure of all circumstances and events that make a difference to users of financial statements (Weygandt et al. 1999). Wolk et al. (1991) in Subroto (2004) states that the reason for the importance of disclosure in the future is because the business environment is growing increasingly complex and the capital market is able to absorb and reflect new information in stock prices quickly (in Tanor 2009). Users of financial reports such as analysts, investors, and others need complete information about a company's financial statements, so that a more detailed disclosure of the company's segment reporting will be very important and useful for appraising and analyzing investment, namely assessing the risks and rewards of a company. companies that have diversified businesses or a multinational company, and assist them in predicting future cash flows and anticipating future profits.

2.2. Cash flow

Cash flow shows the results of operations whose funds have been received in cash by the company and are burdened with cash expenses and have actually been issued by the company (Pradhono 2004). This shows that cash flow has more value to ensure the company's future performance. The statement of cash flows (PSAK No.2 revised 2009) must report cash flows during a certain period and classified according to operating, investing and financing activities, as follows: 1) Operating activities are principal revenue-producing activities and other activities that are not investment and financing activities. 2) Investing activities reflect expenditures that have been incurred for resources that are intended to generate future income and cash flows. 3) Funding activities are activities that result in changes in the amount and composition of the company's equity and loans.

Bowen, Burgstahler and Daley (1986) or BB & D (1986) - see earnings as income (earnings) into the relationship between income and cash flow measurement. Three specific issues were examined by the following BB & D (1986): 1) Correlation between traditional cash flow measures [ie (i) net income plus depreciation and amortization and (ii) working capital from operations] and cash flow measurements [with additional adjustments for changes in current non-cash assets and current liabilities]. 2) Correlation between income and cash flow measurement. 3) Predict future cash flows using income and cash flow measurements. Research BB & D (1986), shows: (1) Traditional cash flow measures (ie net income plus depreciation and amortization: and working capital from operations) are highly correlated with income, while lower cash flows are correlated with earnings; (2) Income does not provide a better estimate of future cash flows. Bowen et al. (1986) and Greenberg, Johnson, and Ramesh (1986), that the results showed that earnings (income) outperformed CFFO (cash flow from operations) in predicting future CFFOs. The authors conclude that: "this study provides evidence in support of the FASB's assertion that current income is a better predictor of future cash flows than current cash flows." Greenberg et al. Research is supported by Murdoch and Krause (1990). Singapore study by Austin and Andrew (1989), which is similar to the approach that Greenberg et al. (1986), found that both income and CFFO proved superior in predicting future CFFOs.
Research Wilson (1986), Bowen et al. (1986), Ali (1994), Baridwan (1997), and Suadi (1998) in Irianti (2008), show that cash flow information provides additional information for users of financial statements. Irianti's research (2008) suggests that earnings and cash flow are several measurements that indicate the success of a company's management. Profit is useful for measuring company performance and cash flow information is the key to measuring liquidity.

Cash flow expresses net income plus depreciation, which is actually distributed to investors, that is, after the company has invested in fixed assets and working capital which are essential for continued operations. So the value of the company is related to its ability to generate cash flow, so that if the cash flow increases, the value of the company will increase, which in turn will also increase the stock price (Brigham et al. 1997). Cash flow from operating activities is an important concern because the long-term viability of a business must generate net cash flows with positive value from operating activities. In addition, cash flow information from operating activities is an indication of the actual success or achievement of a company, so that performance assessments based on this information become more meaningful (Parawiyati and Baridwan 1998).

2.3. Company Financial Performance

Basically, the condition of a company that is vulnerable to macroeconomic shocks such as the monetary crisis can be identified early on by detecting the company's financial performance. It is important for the management, government, and shareholders to evaluate the financial performance of a company, because it involves the distribution of welfare among them. In general, investors only have limited information about listed companies, namely from published financial reports, the measurement of company performance is also carried out from these financial reports (Nur, Muhammad 2001). This can be done through financial statement analysis. From an investor's point of view, financial statement analysis is used to predict the future, whereas from a management point of view, financial statement analysis is used to help anticipate future conditions, and this is the beginning for planning actions that will affect future events.

Accounting information is very useful for assessing the accountability of financial performance. Financial performance is the determination of certain measures that can measure the success of a company in generating profits. The measurement of financial performance needs to be linked between the company organization and the responsibility center. The amount of responsibility of managers in company organizations is manifested in the form of financial work performance (Sucipto 2003). The actual company performance can be described through detailed disclosures. In conditions of market uncertainty, the value of relevant and reliable information reflected in the company's disclosure is an important factor (Hidayah 2008).

Every company aims to maximize the wealth of its shareholders. Measuring the company's financial performance is needed to determine success in achieving these goals. Measurement of financial performance based on financial statements is mostly done using financial ratios (Iramani and Febrian 2005). Financial ratios are used to help evaluate financial statements, to identify some of the company's financial weaknesses and strengths. Keown, J. Arthur, et. Al. (2008) that the use of financial ratios to analyze financial information so that the ratios of two different companies can be compared or also a company with different time limits. Income as a result of financial accounting information is closely related to stock returns compared to cash flows. On the other hand, the ability of cash flow to measure company performance increases revenue, where income has a higher relationship with stock returns than cash flow. Stock return is the income earned by investors on share ownership, this reflects a relationship with the company's financial performance for the payment of stock returns to investors (Dechow 1992).

3. Methods

3.1. Population and Sample.

This research was conducted on companies that went public on the Indonesia Stock Exchange. Bapepam regulations, require companies to go public financially healthy. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange. The sample selection was carried out using purposive sampling method.

3.2. Research variables

The dependent variable in this study is cash flow (Y_1) and financial performance (Y_2). Indicator for each variable. (Y_1) Cash flow, indicators (Soesetio 2005), as follows: ($Y_{1.1}$) Cash Flow from Operating Activities; ($Y_{1.2}$) Cash Flows from Investing Activities; ($Y_{1.3}$) Cash Flows from Financing Activities. (Y_2) Financial performance, measured by financial ratios (Brigham and Besley 2005), consisting of: ($Y_{2.1.}$) Liquidity Ratio; ($Y_{2.2.}$) Asset Management Ratio; ($Y_{2.3.}$) Debt Management Ratio, ($Y_{2.4.}$) Profitability Ratio; ($Y_{2.5.}$) Market Value Ratio

The independent variables are (X_1) Quality of Financial Accounting Information Disclosure, consisting of indicators (Khomsiyah 2005): ($X_{1.1}$) Mandatory Disclosure; ($X_{1.2}$) Voluntary Disclosure.

3.3. Variable Measurements.

This study uses the following variables: 1) Cash flow, measured using cash flow ratio analysis through the ratio of each component of cash flow to total cash flow. 2) The company's financial performance as measured by financial ratios (Brigham and Besley 2005) consists of liquidity ratios, asset management ratios, debt management ratios, profitability ratios, and market value ratios. 3) Quality of Financial Accounting Information Disclosure consists of mandatory disclosures and voluntary disclosures. (a) Mandatory disclosure is measured by the index number used by Wallace (1987) in (Kartika 2009), the formula is: Index = n / k (Where: n = number of disclosure items fulfilled, K = the number of all items that may be fulfilled.). (b) Voluntary Disclosure, measured based on a list of voluntary disclosure items from the annual report developed and used by Khomsiyah (2005) in Rahayu (2007).

3.4. Data analysis methods

This research is a quantitative analysis using Partial Least Square (PLS). The Partial Least Squares tool was used because the sample size was 110 companies. With the PLS approach it is assumed that all variance measures are useful variances to explain (Ghozali 2011).

4. Data Collection

The type of data used is secondary data, and has been published by the Indonesia Stock Exchange, the Capital Market Reference Center (PRPM), and independent auditor reports, including: (1) balance report, income statement, cash flow statement, (2) ratio - financial ratio, (3) management reports on ownership, (4) notes to financial reports.

5. Results and Discussion

5.1. Numerical Results

The following are the results of the PLS test with the PLS coefficient value for each variable.

Table 1. The PLS Coefficient Value of the Effect Between Variables

Path	Original Value Sample (O)	
	Direct	Indirect
Quality of Financial Accounting Information Disclosure → Cash Flow	0,039	
Quality of Financial Accounting Information Disclosure → Financial Performance	0,000	0,0090
Cash Flow → Financial Performance	0,028	

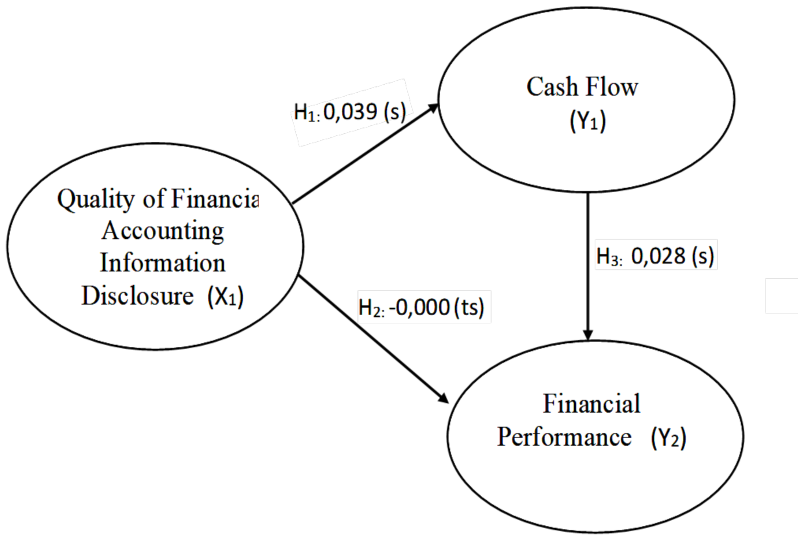
Furthermore, the test results can be seen through the path coefficient on the inner model by comparing the t-statistics value with a critical value of 1.96.

Table 2. Result Inner Weight

Items	Path	Original Sample Estimate	T-Statistic	Test results
1	Quality of Financial Accounting Information Disclosure → Cash Flow	0.039	2.826	Significant Effect
2	Quality of Accounting Information Disclosure Financial → Financial Performance	0.000	0.045	Insignificant effect

Items	Path	Original Sample Estimate	T-Statistic	Test results
3	Cash Flow → Financial Performance	0.028	3.719	Significant Effect

The results of the inner model test can also be seen through the picture as follows.



Information: s: significant; ts: insignificant

Figure 1. Coefficient of PLS Model

The effect of the quality variable on the disclosure of financial accounting information on the cash flow variable is 0.039 (Table 1). It can be seen from the Original Sample Value (O). This is tested by the Causality Test with the Inner Weight in table 2 showing the effect of 0.039 having a T-statistics value of 2.826, where the T-statistics value (R2 value) is greater than 1.96. The higher the R^2 value, the better the prediction of the proposed model. This shows that the effect of the Quality of Financial Accounting Information Disclosure on Cash Flow is positive (Figure 1), the higher the quality of disclosure of financial accounting information, the higher the cash flow. The conclusion is that the quality of financial accounting information disclosure has a significant effect on cash flow.

The effect of the variable quality of financial accounting information disclosure on financial performance variables is 0.0000 (Table 1) as seen from the Original Sample Value (O). This is tested using the Causality Test with Inner Weight in table 2 showing the effect of 0.0000 has a T-statistics value of 0.045, where the T-statistics value (R^2 value) is less than 1.96. The lower the R^2 value means that the prediction of the proposed model will be worse. The score of the path coefficient or inner model indicated by the t-statistics value must be above 1.96. This explains that the variable quality of financial accounting information disclosure has a direct effect of 0.000 (Table 1) on financial performance variables. The variable quality of financial accounting information disclosure has an indirect effect of 0.0090 (Table 1) on financial performance variables. Based on the explanation above, it is concluded (Figure 1) that the variable financial accounting information has no significant effect on the company's financial performance variables.

The effect of the cash flow variable (Y_1) on the financial performance variable (Y_2) is 0.028 (Table 1) as seen from the Original Sample Value (O). This result is tested by using the Inner Weight Causality Test, it is known that the effect of the cash flow variable on financial performance is 0.028 with a T-Statistics value of 3.719, where the T-Statistics value is greater than 1.96. Hypothesis testing can be concluded that cash flow has a significant effect on financial performance. The effect of cash flow on financial performance is positive, meaning that the higher the cash flow, the higher the financial performance. The explanation above shows (Figure 1) that cash flow has a significant effect on the company's financial performance.

5.2. Discussion

The discussion of the results was carried out on the indicators of the research variables at the 110 manufacturing companies sampled. This study uses variables, consisting of the variable quality of financial accounting information disclosure (X_1), cash flow (Y_1), and financial performance (Y_2). The following is a discussion of research variables based on descriptive statistics of research variables,

5.2.1. Discussion of Research Variables

1) Variable Quality of Financial Accounting Information Disclosure (X_1).

Disclosure of financial accounting information, especially the mandatory disclosure of the Lumber & Wood Products manufacturing group, is 83.07 for the mandatory disclosure index ($X_{1.1}$) and 82.29 for the voluntary disclosure index ($X_{1.2}$). This is because (Bushman & Smith 2001) the importance of financial accounting information in measuring and disclosing openly quantitative data regarding the financial position and performance of public companies, which is used by investors to make investment decisions.
All material must be disclosed, including quantitative and qualitative information that will greatly help users of financial statements (Siegel and Shim 1994) in (Tanor 2009), including mandatory disclosures and voluntary disclosures that need to be maximized. This can be seen in the Pharmaceuticals manufacturing group performing the lowest disclosure (minimum of disclosure requirements) of 77.80 for the mandatory disclosure index ($X_{1.1}$) and 8.26 for the voluntary disclosure index ($X_{1.2}$).

2) Variable Cash Flow (Y_1).

Cash flow can show a company's ability to finance expenses from operations, pay off existing debts at maturity, and show a company's ability to meet unforeseen obligations and to pursue business opportunities (Larson, Wild, & Chappetta 2006). This is reflected in cash flows from operating activities that experienced a high surplus of 1,741.33. The highest cash flow deficit of -1,247.32 came from investing activities. This is a transfer of the surplus cash flows from operating activities, other than being used for the company's operational activities, the excess cash flow is used for investing activities.

3) Financial Performance Variable (Y_2).

Based on the results of descriptive statistics, the variable shows the Market Value Ratio ($Y_{2.5}$). has a mean value of 52838.18%. This shows the ability of the sample companies to maximize shareholder wealth through market value above the nominal value of securities traded on the Indonesia Stock Exchange, furthermore this market value generates benefits for the stakeholders of the sample companies.
The company's performance will affect the stock price. If the company's performance is good, the business value will be high, with high business value making investors look to the company to invest so that there will be an increase in stock prices. Conversely, if there is bad news about the company's performance, it will cause a decrease in the share price of the company.

5.2.2. Hypothesis Testing Discussion

1) Quality of Financial Accounting Information Disclosure and Cash Flow.

The results of this study on the sample companies that the quality of financial accounting information disclosure has a positive effect on cash flow. This means that if the quality of disclosure of financial accounting information is higher, the cash flow will also be higher. This is supported by research conducted by Bushman and Smith (2003) which states that financial accounting information can affect investment, productivity and company value added. Financial accounting information is presented in the form of financial statements which aim to provide information for users of financial statements to predict, compare and evaluate the company's ability to generate profits (earning power). Profitability is related to cash flow, especially for investors.

Disclosure of information in the financial statements is done to protect the rights of shareholders. Information in financial statements must be presented adequately to predict the company's future financial condition, cash flow and profitability (Gunawan 2000; Bushe 1999;Tjakradinata 2000 in Anwar's research 2010). Detailed disclosures will provide an overview of the actual company performance. Types of financial accounting information (Dahlan 2003) consist of mandatory disclosures and voluntary disclosures. This has been done by more than 98% of sample companies through mandatory mandatory disclosures, and sample companies (2%) through voluntary disclosure still need to be maximized.

The conclusion of the relationship between variables supports the theory of the quality of financial accounting information disclosure on cash flow variables. This answers the problem formulation that the quality of accounting information disclosure has a significant effect on cash flows

2) Quality of Financial Accounting Information Disclosure and Company Financial Performance.

The results of this study reinforce several previous studies, namely: Wolk, et al (1991). Information related to company performance is displayed through disclosure of financial accounting information in financial reports. Financial reports are very important information for investors in making investment decisions. Future disclosures are made because the business environment is increasingly complex and the capital market is able to quickly absorb and reflect new share price information through the accounting income statement. Quality accounting earnings (Tanor 2009) are accounting earnings that have little or no perceived noise in them and can reflect the company's actual financial performance.

In conditions of market uncertainty, the value of relevant and reliable information reflected in company disclosures is an important factor (Hidayah 2008). The benefits of accounting information have no effect on risk perceptions (Lambert and Verrechia 2005; and Ferris, et al. 1990) in Hidayah 2008. This study explains that accounting information shows the performance, prospects, risk potential and firm value. , but this information does not provide a positive or negative attitude towards the company's shares. Use of information indicates a risk neutral preference. This suggests that users reduce dependence on firm performance because accounting risk measures are less important and tend to conduct speculative trades.

Based on the explanation above, the variables of the quality of financial accounting information disclosure (indicators of the mandatory disclosure variable and the voluntary disclosure variable) together do not have a significant effect on the company's financial performance variables.

3) Cash flow and financial performance of the company.

The results showed that investors in the capital market have a strong interest in information related to company performance. Companies that have a good performance are able to maximize company profits which in turn will improve the welfare of share owners as indicated by the market price per share of the company. This can be seen from the increase in accounting profit and the flow component in the financial statements. The higher the increase and the positive effect of accounting profit and the cash flow component consisting of operating cash flow, investment and financing, will increase company value and increase shareholder wealth in the form of an increase in share prices.

Analysis of cash flow and cash flow (Albrecht 2003) relating to company performance is seen as one of the methods to contribute to economic objectives in the market. Financial reports (Kusno 2004), especially those related to information on changes in cash flow and company accounting earnings, are one of the important information investors can use to assess company performance. A higher increase and a positive effect of accounting earnings and cash flow components which consist of (Oktavia 2008) that: operating cash flows, investing and financing, will increase firm value and increase shareholder wealth in the form of increased share prices.

Hypothesis testing can be concluded that cash flow has a significant effect on financial performance. Cash flow has a positive effect on financial performance, meaning that the higher the cash flow, the higher the financial performance.

6. Conclusion

The results of the analysis show that: 1) The quality of financial accounting information disclosure has a positive effect on cash flow, the higher the quality of disclosure of financial accounting information, the higher the cash flow. 2) The quality of financial accounting information disclosure does not have a significant effect on financial performance. This suggests that users reduce dependence on firm performance because accounting risk measures are less important and tend to conduct speculative trading. 3) Cash flow has a significant effect on financial performance. Cash flow has a positive effect on financial performance, meaning that the higher the cash flow, the higher the financial performance.

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Biography

Titin Ruliana. Obtained a Bachelor degree from the Faculty of Economics, University of 17 August 1945 Samarinda: Masters and Doctoral of Economics, University of 17 August 1945 Surabaya. The author is a permanent lecturer at the Faculty of Economics, University of 17 August 1945 Samarinda. Has published 4 books and 113 articles in a number of reputable National and International Bulletin, scientific magazines and scientific journals with a focus on Economics