THE EFFECT OF IFRS IMPLEMENTATION IN THE GRAY INDEX: LEVERAGE, LIQUIDITY, PROFITABILITY, AND COMPANY SIZE ON FINANCIAL STATEMENT DISCLOSURE

Anik Irawati[1], Rieka Ramdhaniyah[2], Nolita Yeni Siregar[3], Reva Meiliana[4]

[1,2,3,4,] Institut Informatika dan Bisnis Darmajaya

Abstract

The objective of the study was to determine the effect of IFRS Implementation in the Gray Index: Leverage, Liquidity, Profitability, and Firm Size on Disclosure of Financial Statements. The independent variables in this study were the Gray Leverage Index, the Gray Liquidity Index, the Gray Profitability Index, and the Gray Size Company Index, and the dependent variable was the Financial Statement Disclosure. The sample of this study was banking companies listed on the IDX. This study used the purposive sampling and obtained the sample of 32 banking companies. The data collection was done by the method of collecting data obtained from the banking financial statements obtained from the website idx.com and processed using SPSS version 20. Based on the results of the analysis showed that the Gray Index Company size affected the Disclosure of Financial Statements, while the Gray Leverage Index, Gray Liquidity Index, The Gray Profitability Index did not affect the Disclosure of Financial Statements.

Keywords: Gray Leverage Index, Gray Liquidity Index, Gray Profitability Index, Company Size Gray Index and Financial Statement Disclosure

1. INTRODUCTION

In Indonesia, there are several companies make some misstatement in financial statement. For example, corporation between PT. Garuda Indonesia,Tbk and PT. Mahata Aero technology (Mahata) in connectivity services in aviation and entertainment in aircraft. Financial Services Authority(OJK) and the Ministry of Finance (KEMENKEU) found out that there are several areas of a firm’s financial statements that are misstated, such as disclose in rent income for conecctivity

services. Financial Services Authority(OJK) and the Ministry of Finance (KEMENKEU) gave an order to PT Garuda Indonesia (Persero) Tbk to repair and re-disclose the for financial statement end of December 31, 2018 and has to publish (public exposures) for the improvement and disclosure of financial statement.
The Law Regulaition No. 8 – 1995, its tell until 14 days after reprimend letter and BAPEPAM regulation Number VIII.G.7 that's concerning Presentation and Disclosure of Financial Statements of Issuers and Public Companies, Interpretation of Financial Accounting Standards (ISAK) 8 concerning Determination of Whether About Agreement Containing Leases, and Statement of Financial Accounting Standards (PSAK) 30 concerning Leases. (Kompas.com, 2019).

Financial statements is delivering information from management to Investors, creditors, and other users of the financial statements. The aim of disclosures of financial statements is the users can understand about informations and content of the financial statements such as qualitatively and quantitatively informations.
The most important functions of accounting entail that the accounting numbers should have the following qualities: Understandability, Relevance (materiality,& timeliness), Reliability, Completeness, and, Comparability. Disclosure of financial statements must be adequate as a basis for decision making so as to anticipate dynamic economic conditions. Disclosure is very important because disclosure is an integral part of financial reporting and the final step in the accounting process. Disclosure is required for the purpose of informative (informative), serving special needs (differential) and protecting (protective) internal and external parties . The purpose of informative as stated is to provide information that can help the effectiveness of user decision making. The second is the purpose of special needs, meaning that everything that is disclosed to the public is limited to the goals that are seen as beneficial to the user, which are conveyed to the regulatory body based on regulations to disclose them in more detail. The latter is the purpose of protecting intended to protect management treatment that may be unfair and open (unfair), so that the level or volume of disclosure becomes higher

There's a related with agency problem in IFRS Disclose of financial statements', namely the problem of distance between principle and agent which in relation requires a connection between owner and worker, which is 'information' called agency relation. Information in this case is in the form of reports about assets, resourches, and other matters relating to the state of the company made by the agent and submitted to the principle (owner).

The other research use some different indicators, such as leverage, liquidity, profitability, and the issued shares of public. The result of research by Rizky (2015) which uses issued shares of public for important variable, with "The Effect of IFRS Implementation in the Gray Index of Public Share on Disclosure of Financial Statements". The results of this study was indicated that the variable did not have affect the disclosure of financial statements. The research of Devi and Suardana (2014) said "Effect of Company Size, Liquidity, Leverage, Company Status on the Completeness of Financial Statements" indicate that company size has a positive effect, while liquidity and company status have no positive effect on the completeness of financial statements, and leverage has a negative effect on the completeness of financial statements.

Based on the background, this research was conducted with an aim to the Effect of the Gray Leverage Index, Liquidity, Profitability and firm size affect the Disclosure of Financial Statements. These general aims are then devided into spesific objectives as follows : (i) prove empirically the effect of the Gray Leverage Index, (ii) prove empirically Liquidity, Profitability and firm size affect the Disclosure of Financial Statements.

2. LITERATURE REVIEW

Disclosure of Financial Statements

Disclosure of financial statements is a way to convey information contained in a company's financial statements. The aim is to provide assistance to investors, creditors, and other users of financial statements in understanding the risk of investment portfolios as a basis for making rational economic decisions (Prasetya, 2011). Purwandari (2012) states that the disclosure of financial statements is a medium of corporate responsibility to investors that is useful to facilitate decision making on the allocation of resources to the most productive businesses.

According to Tanor (2009) disclosure is the level of disclosure of information provided as an attachment to the financial statements in the form of footnotes or additions. This information provides a more complete explanation of the company's financial position and results of operations. Disclosure of financial statements (disclosure) is a way to convey information contained in a company's financial statements. Disclosure is a means of delivering complete information to the parties involved in the decision making process. Disclosure is also done as an effort to account for the company's activities during a certain period in using existing

resources in the company.

Human Resources Management

According to Mondy and Noe (Larasati, 2018) define human resource management as the utilization of human resources to do organizational goals. According to Malayu S.P Hasibuan (Larasati, 2018) said that HRM is the science and art of regulating the relationships and roles of the workforce to be effective and efficient in helping the realization of company, employee and community goals. According to Hani Handoko (Larasati, 2018) said that HRM is the withdrawal, choice, development, maintenance and use of human resources to do person and organizational / company goals. According to Boone & Kurtz (Larasati, 2018) said that HRM is a function to attract, develop and keep employees who have the qualifications to carry out activities needed to do organizational goals. According to Henry Simamora (Larasati, 2018) said that, HRM (human resource management) is the empowerment, development, assessment, and management of members of the organization or group of employees, and according to A.F. Stoner, HRM is an ongoing procedure that aims to supply an organization or company with the right people to be placed in the right place and place when the organization needs it. From the description of the opinion above it can be concluded that the HRM science or art that regulates all aspects of both the use, development, management, assessment to carry out activities that are effective and efficient for the achievement of organizational / company goals.

Leverage

The leverage ratio is the proportion of total debt to the average shareholder's equity used to provide an overview of the capital structure of the company so that it can be seen the level of risk of the company's debt collection. The greater the leverage of the company, the greater the possibility of transfer of prosperity from creditors and other interested parties. Leverage Ratio is a comparison ratio that measures the relationship between total assets and shareholder equity as a source of funds for company assets. The company funds assets with shareholder equity and debt. The higher the proportion of assets financed with debt, the higher the leverage ratio so that the disclosure of the effectiveness of funding will be more extensive (Libby et. All, 2007).

According to Siahaan in Puspitasari (2019) funding (debt) decisions related to the selection of sources of funds both from within and from outside the company

greatly affect the value of the company. This leverage ratio is very helpful for management and investors to understand how the level of risk capital structure in the company.

Liquidity
Liquidity is the company's ability to pay off any short-term obligations with short-term resources owned by the company. The higher the liquidity ratio, the higher the company's ability to pay its short-term debts. A high level of liquidity will indicate the strong financial condition of a company. Such companies tend to disclose information more widely to outsiders because they want to show that the company is credible. Liquidity is measured by the ratio of current assets divided by current liabilities. Companies that have healthy liquidity have at least a current ratio of 100% (Chasanah and Adhi 2017). So that liquidity has a main function within the company including to anticipate funds if there is an urgent need. Liquidity is needed by investors to assess whether the company is eligible for a capital loan or not. Each liquidity ratio reflects a different perspective to measure the company's ability to meet its short-term obligations, which indicates the company is in a healthy financial condition and easily sells its assets.

Company Size
The size of the company can be measured by using the total assets, income or capital of the company. One measure that shows the size of the company is the size of the assets of the company. Companies that have large total assets show that the company has reached the maturity stage, where at this stage the company's cash flow is positive and is considered to have good prospects in a relatively stable period of time and is more able to generate profits compared to companies with small total assets. Fachrudin (2011). Company size is one indicator that affects disclosure because the larger the size of the company, the greater the responsibility in the delivery of information in the form of items that are used in every activity of the company in making a profit.

3. RESEARCH METHOD

The data in this study use secondary data that is data obtained by researchers from existing sources, in this case in the form of financial statements of company publications. The data used are secondary data in the form of financial statements

of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the period of 2016-2018. The financial statements are obtained from the company's official website or IDX via the internet (www.idx.co.id). The population in this study are banking sector companies listed on the Indonesia Stock Exchange (IDX) with a sample of banking sector companies listed on the Indonesia Stock Exchange observation period starting in 2015-2018.The dependent variable in this study is the disclosure of financial statements (disclosure) which is calculated using the Wallance index. The Wallance Index is used to compare the number of items disclosed with the number of items that should be disclosed. In mandatory disclosure, 73 items must be disclosed (Patiwi, 2013). Then each item disclosed will be given a number 1 while for items that are not disclosed will be given the number 0. The independent variable in this study is IFRS with three important valuation indicators that affect the disclosure of financial statements which are assessed using the comparability index literature (Gray Index). This study will use four indicators that affect the broad disclosure of financial statements, namely: leverage, liquidity, profitability and company size. The data analysis IBM Statistics SPSS. This analysis requires that data must meet these requirements: there is neither multicollinearity between independent variables nor heteroscedasticity, and data should meet normality and linearity assumptions. There was a models as shown below :

$$\mathbf{Y = \alpha + b1Lev + b2\ Liquid + b3Profit + b4Size + €}$$

Model	B	Standar Error
Constant Grey Leverage Grey Likuiditas Grey Profitabilitas	.595 -.099 -3.822E- 005 -3.613	.055 -0.66 .003 .000

With these additional information :

X_1 : Indeks Gray *Leverage*

X_2 : Indeks Gray Likuiditas

X_3 : Indeks Gray Profitabilitas

X_4 : Indeks Gray Ukuran Perusahaan

β : Koefisiensi Regresi

ε : Eror

4. FINDINGS AND DISCUSSION

Based on the table the regression equation is as follows:

$$Y = 0.595 - 0.099 X_1 + 0.001 X_2 - 3.822 X_3 - 3.613 X_4 + €$$

The Effect of the Gray Leverage Index on Disclosure of Financial Statements Based on the results of the first Hypothesis (H1) states that there is no significant effect between the Gray Leverage Index on Financial Reporting Disclosures. The leverage ratio is the proportion of total debt to the average shareholder's equity used to provide an overview of the capital structure of the company so that it can be seen the level of risk of the company's debt collection. The greater the leverage of the company, the greater the possibility of transfer of prosperity from creditors and other interested parties. Leverage Ratio is a comparison ratio that measures the relationship between total assets and shareholder equity as a source of funds for company assets. The company funds assets with shareholder equity and debt. The results of this study are in line with Sari's (2013) research finding that the Gray Leverage Index has no effect on financial reporting disclosures. IFRS implementation in the gray leverage index descriptively has not been able to measure the level of financial statement disclosure and describe the capital structure owned by the company and shows the risk of uncollectible debt. Leverage under IFRS standard with a value below 1 cannot be used as a reference to measure the amount of assets financed by debt. The company has no obligation to make broader disclosures through low leverage. Companies with high leverage tend to reduce disclosures to avoid the debtholder spotlight. Leverage with a high DER value does not always cause companies to make more disclosures because high leverage indicates that the company's liabilities are increasing. As a result the company will choose to disclose lower to avoid debtholder bills for liabilities that exist in the company. The high level of leverage causes the higher the gray leverage index as a result of the high value of liabilities and equity. The more fully the adoption of IFRS, the higher the gray leverage index so that more disclosure is needed as a form of management's responsibility for the value of the resources entrusted to the company.

Based on the results of the second hypothesis (H2) states that there is no significant effect between the Gray Liquidity Index on the Disclosure of Financial Statements. Liquidity is the company's ability to pay off any short-term obligations with short-term resources owned by the company. The higher the liquidity ratio, the higher the company's ability to pay its short-term debt. A high level of liquidity will

indicate the strong financial condition of a company. Such companies tend to disclose information more widely to outsiders because they want to show that the company is credible. Liquidity is measured by the ratio of current assets divided by current liabilities. The results of this study are in line with research by Devi and Suardana (2014) found that the Gray Liquidity Index has no effect on financial statement disclosures. A high level of liquidity triggers management to produce personal profit by reporting a value higher than the actual value. Agency theory states that high liquidity requires more disclosure so as to reduce the likelihood of large expenditure agency expenses. With higher disclosure, management's efforts to generate personal profit can be minimized. The more companies apply IFRS, the lower the liquidity value, the comparability index (Gray index), the lower the liquidity due to the decrease in asset value. The low gray liquidity index value results in companies having to make wider disclosures as a responsibility for lower asset values compared to higher liability values.

Based on the results of the third Hypothesis (H3) states that there is no significant effect between the Gray Profitability Index on Financial Reporting Disclosures. Profitability ratios are ratios that measure a company's ability to generate profits. The higher the profitability ratio means the higher the company's ability to generate profits and the broader the level of disclosure made by the company. The results of this study are in line with the research of Lisyanto (2011) finding that the Gray Profitability Index has no effect on financial statement disclosure. companies have high profits as a result of corporate activities, the greater the disclosure that must be done as a form of recognition so that people judge the company's performance well. The higher the company's profit with IFRS standard, the higher the profitability ratio and automatically increase the gray profitability index. In banking companies, the higher the gray profitability index, the greater the company's obligation to disclose every item related to helping increase profitability. Disclosure of every important item that affects profitability causes more transparency of information obtained by the public and increases the confidence of readers of financial statements, thus investors believe in investing their capital.

Based on the results of the fourth hypothesis (H4) states that there is a significant influence between the Gray Size of the Company Size on the Disclosure of Financial Statements. The size of the company as measured by company assets shows how much assets owned by the company. Companies that have large assets will be able to optimize existing resources to obtain maximum business profits and

companies with small assets will certainly also generate profits in accordance with their relatively small assets. The results of this study are in line with research by Devi and Suardana (2014) found that the Gray Size Index of the Company affects the financial statement disclosure. Companies that have a large total assets show that the company has reached the maturity stage, in which at this stage the company's cash flow is positive and is considered to have good prospects in a relatively stable period of time and is more able to generate profits compared to companies with small total assets. In banking companies, the Gray Size Index of the company is one indicator that affects disclosure because the larger the Gray Index of company size, the greater the responsibility for delivering information in the form of items used in each of the company's activities in making a profit.

5. CONCLUSION

This study aims to examine whether there is an effect of IFRS Implementation in the Gray Index: Leverage, Liquidity, Profitability and Company Size on Disclosure of Financial Statements on Banking Companies listed on the Indonesia Stock Exchange with the 2016-2018 research period. Determination of the sample is done by purposive sampling technique and obtained 32 banking companies with an observation period of 3 years, namely from 2016-2018. So that the total sample obtained is as many as 96 annual reports (annual report) Banking companies. Gray Index Company Size affects the Disclosure of Financial Statements in Banking Companies listed on the Indonesia Stock Exchange in the period 2016-2018 and the Gray Leverage Index, Gray Liquidity Index, Gray Profitability does not affect the Disclosure of Financial Statements in Banking Companies listed on the IDX.

REFERENCES

Ahmed Riahi, Belkaoui. (2000).Teori Akuntansi, Jakarta:Salemba Empat.

Aida Ainul Mardiyah, Mei 2002. "The Effect of asymetri information and Diclosure of Cost Capital", Jurnal Riset Akuntansi Indonesia, Vol.5 No.2, hal. 229-256.

Ano, Rizky Rurniawan.dkk. 2015. "The Effect of liquidity and profitability to Deviden Payout Ratio in sector Banking at Indonesia Stck Exchange 2009 - 2013". Universitas Sam Ratulagi : Jumal EMBA Vol.2 No.3.

Bachtiar, Usman, 2003. "Finance Ratio Anyalisis in preditable Return on Banking Sector in Indonesia ", Media Riset Bisnis dan Manajemen, Volume 3, Nomor l , bal 59-74.

Ghozali, Imam, 2005, Aplikasi Analisis Multivariate dengan SPSS., Semarang.
Irawan Budi, 2010, The Effect of debt to Profitability at Telecomunication Sector at Indonesia Stock Exchange Company 2006-2011. Jurnal Pekanbaru: Universitas Islam Negeri Sultan Syarif Kasimriau.
Rini nur rizky (2015), The effect og implemetaion IFRS in indeks Grey – issued public share oo disclosure financial statement.