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VALUE RELEVANCE AND DETERMINANTS OF FINANCIAL RESTATEMENTS

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ABSTRACT

This research is a case study on Value Relevance And Determinants. The purpose of this study is to analyze the value relevance and determinants of financial restatements. This study uses a quantitative approach method. This study consists of 7 variables, namely the independent variable (X) namely restatement, profitability, leverage, company size, audit quality. The dependent variable (Y) is firm value, restatement. The population used in this study are companies that perform financial statement restatements, manufacturing companies listed on the Indonesia Stock Exchange (BEl) in the period 2014-2017. In this study the authors used two sources of data, namely primary data and secondary data. The results of this study indicate that based on the results and discussion of the research, it can be concluded that; Financial statement restatement has no effect on firm value; Profitability, leverage, company size and audit quality together can explain the possibility of a financial statement restatement

KEYWORDS *Financial Statements, Restatement, Profitability, Leverage, Company Size Quality*

INTRODUCTION

Reported financial statements have the general purpose of providing information about a company's financial condition, performance and cash flows that are useful to most users of financial statements in making investment decisions and management's responsibilities for the use of entrusted financial resources to Prove you. You. (PSAK No. 1, 2014). For the information in the financial statements to be useful, the information in the financial statements must meet essential characteristics that are relevant and appropriate for presentation (Ali, Saffa, Besar, & Mastuki, 2018) .

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Information is considered relevant if it can influence the decisions of its users (IASB, 2010). Not only the relevant information in the financial statements must be properly presented. Fair representation means that illustrations and descriptions correspond to existing or existing situations (Bailey Jr, McWilliam, Buysse, & Wesley, 1998) . However, companies often have to adjust financial statements (restatements) because the financial statements do not meet essential quality, especially correct presentation, such as incomplete or incorrect information that does not conform to GAAP (Gjerde, Knivsflå, & Saettem, 2008) .

On a global scale, financial statement adjustment has become a serious problem, and the number of actually adjusted financial statements is increasing year by year (Jurkowski et al., 2020) . In the U.S., high-profile financial-statement restatement scandals such as Enron and WorldCom have done significant damage to reputations and the stock market, and could even lead to bankruptcy. According to the U.S. Government Accounting Office (GAO), there were approximately 2,705 restatements of financial statements, and the number continued to increase over the 13 years from 2000 to 2013 (Ali et al., 2018) . Several previous studies have found that the value of the company will weaken when restatement occurs (Kieso, Weygandt, & Warfield, 2016) .

In addition to studying the correlation of degree restatement values, the researchers also looked at the factors that lead to restatement. One of the reasons that is usually the cause is the profitability factor. Profitability is the ability of a company to generate profits and an indicator to measure the effectiveness of a company's management (Watts & Zimmerman, 1986) . Managers will choose accounting policies that transfer earnings reported in future periods to the current period, making company earnings look high because managers want high compensation. As a result, the reported earnings violated applicable accounting principles requiring the company to adjust the reported earnings (Watts & Zimmerman, 1986) . The practice of revenue recognition is the most common reason for restatement (Bailey Jr et al., 1998) . However, the results of previous studies (Netzer et al., 2011) , found that there was a negative relationship between profitability and restatement.

Leverage or debt levels are also expected to have a significant impact on financial statement adjustments. Solvency ratio or leverage ratio is a measure used to regulate the extent to which a company's activities are financed by debt (Kasmir, Senthilkumar, Britto, & Raj, 2011) . The higher the level of debt will make the company seen by investors as having a high risk of default or violation of credit agreements (Sembiring, 2005) . This tendency makes the company not recognize debt as a whole. As a result, the financial statements are presented incompletely so that the company is required to restate the financial statements on the recognition of debt. In a study conducted by Alfonso (2018), it was found that there was a negative relationship between debt levels and restatement, while research (Netzer et al., 2011) found the opposite, namely a positive relationship between debt levels and restatement.

Companies that are large and listed on the stock exchange tend to show good performance, so it is possible for these companies to manipulate financial statements. The results of previous studies (Bailey Jr et al., 1998) found a positive relationship between firm size and the occurrence of restatement, but research

(Netzer et al., 2011) found the opposite relationship, namely firm size had a negative effect on restatement (Kirkulak & Balsari, 2009)..

Audit quality is also a factor that influences companies to restate financial statements. Audit quality in general means the possibility of the auditor to detect and report material misstatements contained in the client's financial statements or accounting system. The higher the audit quality, the lower the possibility of restatement. According to DeAngelo, 1981, big four KAPs have higher audit quality than non- big four KAPs. Companies audited by the big four KAPs are believed to have high audit quality so that the possibility of restatement of financial statements is low. The results of previous research (Neumann et al., 2018) , found that there was a negative effect of the size of the public accounting firm on restatement. This study aims to analyze the effect of restatement of financial statements on firm value and the effect of profitability, leverage, firm size and audit quality on the occurrence of restatement of financial statements (Liu et al., 2022) (Van Bergen et al., 2016) .

Based on the above background, research on the relevance of financial statement restatement values and the factors that influence the occurrence of restatements still has inconsistent results and is still rarely found in Indonesia (Netzer et al., 2011) . This study aims to re-examine the relevance of the value of the restatement of financial statements and the factors that cause the restatement of financial statements. The results of this study are expected to support previous research by providing additional empirical evidence and contributing as a useful reference to the financial statement restatement literature.

RESEARCH METHOD

This study adopts quantitative research method. Quantitative methods aim to test theories, establish facts, show relationships between variables, provide statistical descriptions, and estimate and predict expected outcomes. This study consists of 7 variables, the independent variable (X), namely restatement, profitability, leverage, company size, audit quality. The dependent variable (Y) is a fixed value, restated. The population used in this study is restatement of financial statements, manufacturing companies listed on the Indonesian Stock Exchange (BEl) for the period 2014-2017. In this study, the authors used two data sources, primary data and secondary data. Data collection techniques performed in this study consisted of distributing a list of questions in written or online format, in the form of statements or questionnaires, with closed-ended answers. The data analysis technique in this study is in the form of descriptive analysis, which is a technique to express and explain the opinions of respondents based on answers from research instruments that have been proposed by researchers. From the data that has been collected, then a descriptive data analysis is carried out, namely by describing objectively and systematically the situation in the field.

RESULTS AND DISCUSSION

A. Analysis Results

In model 1 this study uses simple linear regression. Table 4.3 shows a significant value of 0.627, which means it is greater than = 0.05 (5%), this result shows that the Restatement variable has no significant effect on Company_Value.

Table 1
Value relevance results from restatement of financial statements

Coefficients [a]					
Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	-6,454	7,366		-,876	,381
restatement	7.524	15,478	,024	,486	,627
a. Dependent Variable: Company_Value					

Source: Results of data processing

In Model 2, the logistic regression model feasibility test was analyzed using the initial results of the Hosmer and Lemeshow tests shown in Table 4.4 before assumptions were made. The test of fit value for goodness of fit measured by chi-square in the Hosmer and Lemeshow test yields a significance level of 0.634, a significance ratio greater than 0.05. Therefore, it can be said that the initial hypothesis (H0) cannot be explained, this result can be concluded that the results of this study can predict the observed values, or the model can be said to be acceptable because it is consistent with the observed data, as expected. Variables such as profitability, leverage, firm size, and audit quality together can explain trends in firms' restatement of financial statements.

Table 2
Feasibility Analysis of the Hosmerdan Lemeshow Test Model

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	6,118	8	,634

Except for testing the ensemble model - by paying attention to the number -2 log-likelihood, the ensemble model conforms to Table 4.5. The -2 log probability for the constant-only model (block number = 0) is 444,580, while the -2 log probability for the constant and independent variable model (block number = 1) is -2 log probability 436,773. According to Ghozali (2011: 79) reducing this number means that H0 is rejected and adding the independent variables profitability, leverage, firm size, audit quality to the model improves the fitted

model and shows a better logistic regression model to Running a regression model can be used for further testing.

Table 3
Table -2 Log likelihood CONCLUSION
Iteration History [a,b,c]

Iteration		-2 Logs likelihood	Coefficients Constant
Step 0	1	445,940	-1.096
	2	444.581	-1,227
	3	444.580	-1,231
	4	444.580	-1,231

a . Constant is included in the model.
b. Initial -2 Log Likelihood: 444,580
c. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001 .

Iteration Historya,b,c,d

Iteration		-2 Logs like elimination	Coefficients Consta nt	Profitabi lity	Leverage	Compan y_Size	Quality_A udit
Step 1	1	440.54 0	-2.856	-,21738 4	-,010	,128	-,136
	2	437,47 9	-3.691	-,	-,028	,180	-,202
	3	436,78 3	-3,799	-,437	-0.059	,189	-,230
	4	436,77 3	-3.815	-,433	-,063	,191	-,234
	5	436,77 3	-3.815	-,433	-,063	,191	-,234

a. Method: Enter
b . Constant is included in the model.
c. Initial -2 Log Likelihood: 444,580
d. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001 .

Source: Results of data processing

From table 4.6, it can be seen from the value of Nagelkerke's R Square of 0.028, which means that the variability of companies performing financial statement restatements (the dependent variable) can be explained by the variability of the independent variables (profitability, leverage, firm size, audit quality) of 2.8%. While the remaining 97.2 % is explained by other variables outside the model.

Table 4
Nagelkerke R Square

Model Summary			
Step	-2 Logs likelihood	Cox & Snell R Square	Nagelkerke R Square
1	436,773 [a]	0.019	0.028

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001 .

Multicollinearity testing was conducted to test whether there was a correlation between independent variables. Whether or not multicollinearity occurs, it can be seen from the Variance Inflation Factor (VIF) and Tolerance values in Table 4.7.

Table 5
Multicollinearity Test

Coefficients [a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitability	,991	1.009
	Leverage	,994	1.006
	Company_Size	,732	1.366
	Quality_Audit	,727	1.376

a. Dependent Variable: Financial_Restatement
Source: Results of data processing

From the test results, it is known that VIF < 10 and Tolerance > 0.10 for all independent variables, which means that there is no multicollinearity between the independent variables in this study.

Table 6
Classification Table 2 x 2
Classification Table [a]

Observed			Predicted		
			restatement		Percentage
			,00	1.00	Correct
Step 1	restatement	,00	322	0	100.0
		1.00	93	1	1.1
	Overall Percentage				77.6

a. The cut value is ,500
Source: Results of data processing

From table 4.8 above, it can be seen that the accuracy of the model is 77.6 % . To test the hypothesis in model 2, namely about profitability, leverage, firm size, audit quality on financial statement restatements using Wald's test, and the results are as follows:

Table 7
Wald test
Variables in the Equation

		B	SE	Wald	df	Sig.	Exp (B)	95% CIfor EXP(B)	
								Lower	Upper
Step 1 [a]	Profitability	-,433	,743	,340	1	,560	,649	,151	2,782
	Leverage	-,063	.044	2,115	1	,146	,939	,862	1.022
	Company_Size	,191	,086	4,876	1	0.027	1,210	1.022	1,433
	Quality_Audit	-,234	,295	,630	1	,428	,791	,443	1,411
	Constant	-3.815	1,205	10,019	1	,002	,022		

a. Variable(s) entered on step 1: Profitability, Leverage, Company_Size, _Audit Quality .
Source: Results of data processing

Based on the results of the Wald test, it can be seen that the most significant result, namely the sig value at the 5% level (Sig 0.05) is size (firm size). While the rest, namely profitability, leverage, audit quality has no evidence / insufficient evidence affects the dependent variable, namely the restatement of financial statements.

B. Discussion of Research Results

1. Effect of restatement of financial statements on firm value

Table 8
Simple Regression Test
Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	,024 [a]	.001	-,002	131.97991

a. Predictors: (Constant), Financial_Restatement
Source: Processed Data

The results of the feasibility test on model 1, the simple linear regression test showed that the value of the coefficient of determination (R2) in the simple linear regression test in table 4.10 showed a value of 0.001. This means that 0.1 % of the variation in firm value can be explained by the financial statement restatement variable. The remaining

99.9 % change in firm value is influenced by other variables outside the research model.

The financial statement restatement variable has a significance value of 0.627 with a beta value of 7.524 which means that there is not enough evidence that financial statement restatement has an influence on firm value. This result is not in accordance with the research hypothesis which states that the financial statement restatement has a negative effect on firm value. The results of this study do not support the results of previous studies (Netzer et al., 2011) that the value of the company will weaken when the restatement occurs.

The results of this study also do not support the theory of market efficiency which states that market prices always perfectly reflect available information and react immediately to new information. This is indicated by the absence of the effect of restatement of financial statements on firm value. This can be due to the number of companies that did restatement of financial statements during the study period only 22.6% of the total sample of 416. This number is so low that it cannot prove that restatement has an effect on firm value.

2. Factors Affecting the Occurrence of Financial Statement Restatements

The feasibility test results of Model 2 show that profitability, leverage ratio, firm size and audit quality together can explain the tendency of firms to adjust financial statements, and the explanatory power/determination value (R2) value of this model is 0.028. This means that 2.8% of the variability in financial statement restatements can be explained by variables such as profitability, leverage, company size, and audit quality. The remaining 97.2% of financial statement adjustments are explained by other variables outside the research model. The impact of each variable on financial statement adjustments:

a. The effect of profitability on the restatement of financial statements

The test results show a significant value of 0.560 and beta -0.433, which means that profitability has no effect on the restatement of financial statements. These results are inconsistent with research hypotheses, which suggest that more profitable firms are more likely to report financial adjustments. The results of this study are inconsistent with those of Wang & Wu, 2011; Chi et al., 2011; Chi & Sun, 2014, pointing out that profitability affects the restatement of financial statements. This finding contradicts an opportunistic form of agency theory, which explains that executives eager for high compensation choose accounting policies that shift profits reported in future periods to the current period (Oswald, 2008)

As a result, the reported income may violate the applicable regulations, thereby allowing for a restatement of revenue recognition. The absence of a significant effect between profitability and financial statement restatement can be caused by the achievement of a fairly low level of profitability in manufacturing companies during the 2014-2017 period,

where on average the company's ability to generate profits is only around 6%. With the average profitability ratio of only about 6%, it can be concluded that the level of profitability of manufacturing companies is not too high or still below 10%. With profitability conditions that are not too high, it does not encourage the company's management to restate the financial statements.

b. The effect of leverage on the restatement of financial statements

The results of this study show a significant value of 0.146 and a beta value of -0.063, which means that there is not enough evidence that leverage has an effect on Financial Statement Restatement. This result is inconsistent with the research hypothesis which states that the higher the level of leverage, the more likely the company is to restate its financial statements. The results of this study do not support previous research (Neumann et al., 2018) which found that there was an influence between the level of debt and the restatement of financial statements (Sembiring, 2005) .

There is not enough evidence that leverage has an effect on financial statement restatement, perhaps due to the company's debt activities, most of their funding levels are not obtained from debt. Therefore, leverage is not a significant factor in the occurrence of financial statement restatements. This is indicated by the high value of the leverage ratio of manufacturing companies which reached 2,578 in 2016.

c. The effect of company size on the restatement of financial statements

The test results show a significance value of 0.027 and a beta value of 0.191, which means that it is proven that the size of the company has a significant effect on the restatement of financial statements. The results of this study are in accordance with research (Bailey Jr et al., 1998) which found that firm size has an effect on the occurrence of restatement (Park & Gao, 2006) .

The results of this study are in accordance with the statement of Stolowy & Breton, 2000 which states that large companies, when viewed from reported earnings in a stable position, will provide more confidence for company owners accompanied by the aim of increasing shareholder satisfaction through growth and stability. reported earnings, but still within the limits of applicable accounting rules.

d. The effect of audit quality on the restatement of financial statements

The results of this study indicate a significant value of 0.428 and a beta value of -0.234, which means that there is insufficient evidence that audit quality has an effect on Financial Statement Restatement. This result is inconsistent with the research hypothesis which states that the lower the audit quality, the more likely companies are to restate their financial statements. The results of this study do not support previous research conducted (Neumann et al., 2018) and (Liu et al., 2022) which found that

there was a significant effect between the size of public accounting firms and the occurrence of restatements. This shows that the size of the KAP has no effect on the possibility of a financial statement restatement (Siagian & Utami, 2022) .

There is no influence between audit quality and financial statement restatement in manufacturing companies in this study, one of which is due to only a small number of companies or less than 50% of companies using the services of the big four KAPs during the 2014-2017 period. This can be seen from the average maximum audit quality score that only reached 38.5 % in 2017, and the lowest was 34.6% in 2014 and 2015. Thus, it can be concluded that on average less than 50% companies that use KAP services are included in the big four.

CONCLUSION

Based on the results and discussion of research, this research can be concluded that; Financial statement restatement has no effect on firm value; Profitability, leverage, firm size and audit quality together can explain the possibility of a financial statement restatement. The influence of each variable is described as follows (a) There is insufficient evidence that the greater the profitability, the more likely the company to restate its financial statements. (b) There is insufficient evidence that the higher the leverage owned by the company, the more likely the company is to restate its financial statements. (c) It is proven that the larger the size of the company, the more likely it is that the company will restate its financial statements. (d) There is insufficient evidence that the poorer the audit quality, the more likely the company is to restate the financial statements.

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