

**INTERNATIONAL JOURNAL OF
CREATIVE RESEARCH AND STUDIES**

www.ijcrs.org

ISSN-0249-4655

**The Impact Of Accruals Quality and Tax Management On The
Future Performance Moderated by Dividend Policy****Muljanto Siladjaja**Dosen IKPIA Perbanas Institute
Post Graduate Student, Trisakti University**Itjang D Gunawan & Vinola Herawaty**
Trisakti University**Abstract**

This research is to develop out the integrated model for illustrating how to measure the impact of earning quality by using accruals quality and tax management to the future performance with using the dividend policy as moderated variable. By looking over the previous study, there was a strong correlation between the quality of financial report and tax management with tax discretionary tax accruals, all investors have the positive perspective on highly tax obedience. The critical finding in this research shown out that all public firm have a systematic method of implementing the accruals quality to influence the investor's perception as the communication process. This empirical research shown out the investor's positive perspective on the improvement of accruals quality, it means the possibility of using accruals always exists in reporting performance. The dividend policy has a critical position when it has leveled up the accruals quality, because it gives an influence on the high investor's involvement in strategic decision. By considering the agency cost in the future, tax management should be acceded by investor then directly the dividend policy will disseminate positive signal into market price in the future. It reflected on the reduction of accruals using that has leveled up the total accruals quality. By using future performance based on earning and equity, the investor has enough capability in detecting the earning management, the investor have calculated the net market value in predicting the future prospect. This research has developed out a novelty in estimating accruals quality literature by mapping the feedback of interaction in tree model decision. Finally, this research found an implication of game theory, in which the investor have the adequate capability in estimating the accruals quality in financial statement, including the negative perception of using accruals in reporting company's performance. This is an empirical prediction by using the probability test examining how management implement the opportunistic behavior against the investor perception and how the investor reaction beyond the published period in releasing out the

financial report. By having the signal "good news", it gives a positive contribution beyond the future prospect, particularly to achieve the high accruals quality. It reflected the capability of management to run the company's expansion in future by fulfilling the investor's required return.

Key words: *Accruals Quality, Tax Management, Future Market Based On Earnings, Future Market Based On Equity, High Yielded Dividend Policy, Discretionary Tax Accruals and Earning Quality.*

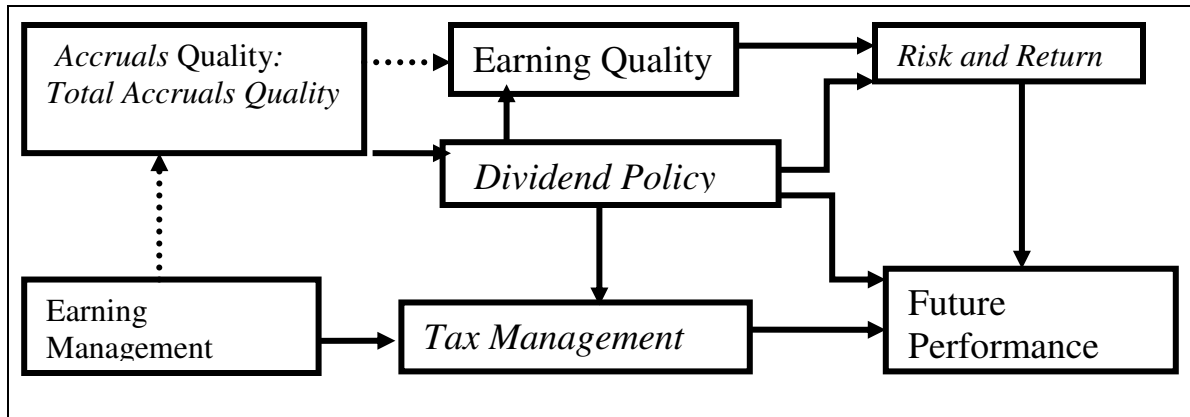
1. Background

The measurement of firm's performance indicates the level of its ability (going concern) in the future, including the ability of management in conducting the expansion activities to reach out the expected rate of return. The measurement of firm performance which concerned on the fluctuation of stock market value as investors' reaction in obtaining the financial statement information was started by the research of Ball and Brown (1968) and Beaver (1968). When the information on firm performance contributes to the investment decisions (*decision usefulness*), particularly in achieving the required target returns.

By looking over the phenomenon of earnings quality in Indonesia, Leuz et al, (2003) indicated that Indonesia is in a country cluster with a low level of investor's protection, it shows the low quality of earnings in several companies, the similar results were reinforced by Djankov *et al*, (2008 in Rosner, 2003). Myring (2006) classified Indonesia into "the emerging market" while Lako (2006 in Puspitaningtyas, 2011) indicated a decrease in the relevance' value of accounting information in the manufacturing industry in Indonesia. It was around 2.1-8.5% from the period of 1995-2004. Partami et al, (2015) assumed that these rates tended to decline dramatically until the last decade. Thus, a number of Indonesian firms have problems with earnings quality, this test encourages the management to improve their earnings quality.

The ability of investors to absorb the information of financial report can be pointed out by the several signals "bad" to reflect the degree of using of accruals and the implementation of earnings management. Rosner (2003) and Nurul and Baridwan (2007) indicated that the use of accruals can provide an assumption of the potential bankruptcy or the inability to pay business debt as an implication of the "bad" impact of corporate performance. Dahlia and Utama (2014) explained out that the number of Indonesian companies conducting the earnings management practices has increased in the last decade, in line with the average growth of the Indonesian capital market index of 26.75% per year in the period 2000-2016 based on the BEI 2017 annual report. Dichev et al, (2016) mentioned that a number of CEO were proven to insert in some distortions in earnings reporting, because of their authority in determining the accounting methods and operational decisions. Riwayanti et at, (2016) assumed that the opportunity to make earnings management is always exists in publishing the performance reporting, because of discretionary's authority.

Hanlon and Shevlin's research, (2005) indicated that when a firm has a high level of potential tax debt, the firm's market performance is at a low level. The investors are able to know the quality of reporting through the government regulations compliance by using the measurement of tax accruals in tax management policies. It has contributed the positive and negative effect on the market prices responds after the publication period (Choudhary et al, 2016). Lee (2016) emphasized that investors have a positive perception of compliance with tax regulations, when the tax management is able to level down the agency cost in future, including the tax's exploration. In order to pave out the understanding the process flow of tax management, this research provides the figure 1, which pointed out the relationship between the variables with the future performance.



Source : the summary from some journals compiled by the researcher.

Figure 1: The Relationship Between Some Operational Variables With The Firm's Future Performance

Figure 1 indicates the high contribution of accruals quality on the improvement of high earnings quality, it is able to reduce out the level of the firm's risk level. The high accruals quality indicates the usage of accruals in low level wherein the dividend policy is an indicator of earnings quality through measurement of accruals cash flow (Bandi 2012). On the other side, the investors can estimate the level of earnings quality by measuring the level of tax regulations' compliance. When the level of compliance is high, the quality of earnings is high, there is a tendency to reduce agency costs (Diaz and Alam, 2012 and Ryu, 2014). Desai (2003) verified that the high level of tax regulations' compliance indirectly reduced the political costs. While tax management is able to reduce the risk of tax exposure, there is a positive contribution to the future market performance, this reflects the earnings quality through the use of accruals in low level (Hanlon 2005). The usage of accruals is influenced by the implementation of earnings management, so that this instrument gives the positive contribution to the future performance, especially the firm's prospects (Zou, 2015 and Ping, 2016). Emke's (2011) and Bhattacharya et al. (2012) research indicated that the use of earnings management increases the level of firm's risk, because there is a bias in reporting the earnings. Some investors are able to detect the earnings management behavior by developing a fundamental analysis of financial statements, Mulford and Comiskey, (2005) found that there was an increase in firm profits through opportunistic behaviour.

This test develops some new insights on empirical testing of the financial statement information beyond the investor reactions, when this research have the moderation estimation, arranged as follows:

1. The effect of accruals on the firm's future performance, by developing dividend policy as a moderating variable.
2. The influence of tax management on the firm's future performance, by developing dividend policy as a moderating variable, including measurement by using the discretionary tax accruals.

2. Identification of Problem

This study has the following formulation of the problem:

1. Does the accruals quality have an influence on the future performance of the firm?
2. Does tax management by measuring discretionary tax accruals have an influence on the firm's performance?
3. Does the dividend policy moderate the effect of accruals on the firm's future performance?
4. Does the dividend policy moderate the effect of tax management by measuring discretionary tax accruals on the firm future performance?

3. Positive Accounting Theory

Positive Accounting Theory (PAT) is proposed by Watts and Zimmerman (1986), describing accounting policies as problems for companies and parties involved in the financial statements, and it can be used for predicting the accounting policies chosen by some companies under certain conditions. This positive theory is able to explain some capital market phenomena and the process of the rise and fall of stock market prices of several companies, the theory has a view that the firm is a 'nexus of contracts'. As a collection of various contracts, the firm rationally wants to minimize the contracting cost associated with the contract that enters it, such as negotiating costs, monitoring contract performance, bankruptcy or failure possibility, etc. Positive accounting theory argues that companies have discretionary authority in designing the accounting policies to minimize the contracting costs.

4. The Signaling Theory

The basis of this theory is that the management and shareholders do not have enough access to the same firm in obtaining information or information asymmetry. It shown out the information have been controlled by management, while shareholders are unable to obtain the equal information. When there is a change in the funding policy, it reflect on the firm objection in leveling up and down the firm's value, this kind of information can be a signal for the shareholders. The capability of management in managing the firm is the ability to give signaling to shareholders regarding the prospects and performance of the firm in the coming period (Desai et al, 2004, and Bhattacharya et al, 2012).

5. The Regulation Theory

In the development of the capital market, the capital market manager should be able to influence the 'go public' of companies to implement the accounting policies or tend to increase the element of conservatism, as a reaction to the Sarbanne Oxley Act (2003) (Lasdi, 2008). The regulatory theory suggests government intervention on corporate earning implications, this can be seen by government intervention through the fiscal policy and tax regulations. Indonesian tax regulations do not recognize the existence of consolidated financial statements, in which each firm is treated as a separate unit business, in its implication, each firm acts as a tax object. Implications of the regulation theory provide opportunities for management to improve the quality of financial reporting, even opportunities for earnings management and real based manipulation activity (Rosner, 2003 and Roychowdury, 2006).

6. Measurement of Firm Rate

Based on *Life Cycles and Multistage*, the formulas for predicting the future with estimating the firm's growth is presented as: (Bodie et al, 2013):

$$Price_t = Div_0 \sum_{t=1}^T \frac{(1+g_1)}{(1+k)^{t+1}} + \frac{Div_t(1+g_2)^t}{(1+k)^t(k-g)} \dots \dots \dots (1)$$

Brigham and Houston, (2011) assumed that the rate of return on investment, that contains the *dividend pay out* and *expected return*. The formulas for predicting the future is presented as follows:

$$k = Dividend Yield + Capital Gains Yield$$

$$k = Div_t / P_t + g \quad \text{where } g = k \text{ in the CAPM model } \dots \dots \dots (2)$$

By using the mathematical substitution of equation (2) and (1), the formulas for predicting the future is arranged as follows:

$Price_{t+1} = [\{ Price_t + Div_t \} (1+k)]$ by entering past dividends

$$Price_{t+1} = [\{ Price_t \times (1+k) \} + \{ Div_t \times (1+k) \} + \{ Div_{t-1} \times (1+k)^{t+1} \}] \dots\dots\dots(3)$$

Description:

1. $Price_0$ and $Price_{t+1}$ = Share Prices with growth of periods t and t + 1
2. g_1 and g_2 = Growth Patterns of Pre and Upcoming Periods.
3. Div_t and Div_{t+1} = Dividend value for periods t and t + 1.
4. k = Rate of Return with CAPM, where $k = r_f + \beta [E_{(rm)} - r_f]$
5. t = Time period.
6. b = Return or Retention Rate (1- dividend pay out in percentage).
7. R = Interest Rate or Risk Free Investment Level
8. ROE = Return On Equity with the rate of profit divided by the value of equity.

Darmodaran (2012) used the measurements of the average growth rate by using the geometry approach, the formulation of the following formula:

$$\text{Geometry Growth Rate (g)} = [\text{market value}_0 / \text{market value}_n]^{1/n} - 1 \dots\dots\dots(2)$$

Description:

1. $Market\ value_0$ = Stock Market Prices in the Early Period
2. $Market\ value_n$ = Stock Market Prices in the Nth Period

7. Dividen Policy

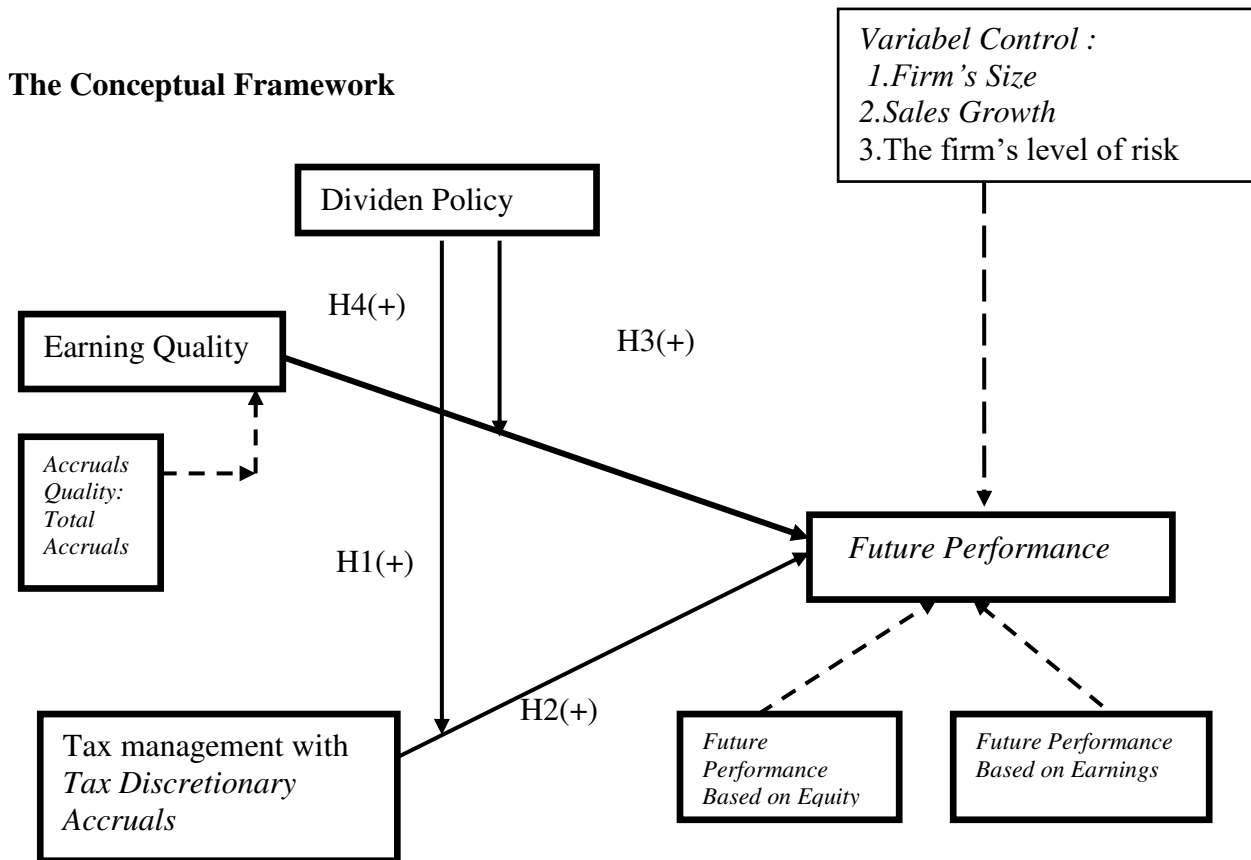
Dividen policy is a *debateable issue* which interest the stock market, especially the influence on stock price fluctuation (Lease *et al*, 2000). Recently, Myres (2001), Deshmukh (2005) and Brav *et al*, (2005) indicates that the dividen policy encourages the firm to decrease its level of risk. Several theories of dividen policy are explained below:

1. *Dividend Irrelevance Theory : Miller and Modigliani (MM) (1964)*
Modigliani and Miller argued that dividen policy is an *irrelevant* activity. It is because there is no relationship between capital structure and capital earning, despite it is related to the level of risk.
2. *Bird In The Hand Theory : Gordon and Litner (1963)*
Disagree with MM, Gordon and Litner argued that the dividen policy has a lower risk than transactional earnings (Gordon, 1963). The firm can give higher dividen for the high level stocks, so that it can increase the stock price.
3. *Tax Preference Theory : Litzenberger and Ramaswamy (1979)*
The investors prefer additional retained earning rather than dividen payment, because there is tax charged for the dividen, the rates is higher than firm earning's tax.

8. The Research Framework

By giving a theoretical illustration, this research have provide the research framework in paving out the understanding the research method, particularly in arranging the hypothesis, that based on the problem identification. This research have two different in measuring future performance, it likes measurement

firm performance in future by using the equity value and the earnings, which is associated as a novelty in this research. The framework of this research is outlined by figure 2 below:



Note: Arranged and compiled related to the research's title and objectives.

Figure 2: The Research Framework

9. The Influence of Accruals Quality on the firm's Future Performance

After proposing the conceptual framework, the testing of *accruals quality* by using *total accruals quality* contributed the the positive ways on future performance. By doing the improvement the *accruals quality*, it can be predicted that the positive fluctutation in market price for the future. Therefore, the hypotheses are arranged as follow:

H1: The *Total Accruals Quality* has a positive influence to the firm's future performance.

The management also tends to increase a high accruals quality by using the accruals in low level, so as the accruals are conducted in balance sheet's components (Kerstein and Rai, 2007). Ping (2016) indicated that there is an effect of *abnormal accruals* on future performance, similar to Zuo (2015) who used the current period *accruals* to estimate the firm's condition and prospect. Therefore the hypothesis are developed as:

1. H1a : *accruals Quality* has a positive influence on the *future performance based on equity*.
2. H1b : *accruals Quality* has a positive influence on the *future performance based on earnings*.

In this testing, the measurement of tax management is conducted with *discretionary tax accruals*. If there is a positive *discretionary tax accruals*, it will give a positive contribution to the *investor's* perception. By using the tax management to reduce potential tax violation, it also gives positive contributions to the future prospects. Therefore, the hypotheses are arranged as follow:

H2: the tax management level has a positive effect on the future performance.

1. H2a : *Discretionary tax accruals* in tax management has a positive influence on the *future performance based on equity*.
2. H2b : *Discretionary tax accruals* in tax management has a positive influence on the *future performance based on earnings*.

The high demand on the improvement financial report quality that predict the firm;s performance in the next period, is reflected by a high accruals quality (Elayan *et al*, 2016 and Bassiouny *et al*, 2016) and illustrated out the management reputation (Martinez *et al*, 2016). In last decades research, this testing indicates the contribution of dividen policy that effects the *accruals* usage in low level, including the increasing of high *accruals* quality. Therefore, the hypothesis is arranged as follow:

H3: The dividen policy reinforces the positive influence t of *accruals* quality on the firm's future performance.

Chaudhary *et al*. (2016) assumed that dividend policy is a tool to estimate the measurement of investor feedback regarding firm's policies and performance, including future prospects, this is also supported by Tresl (2013). There is a reaction and anticipation of investors on earnings quality through the use of accruals, Zuo (2015) and Ping (2016) assumed that the use of accruals evoke the difficulty of predicting future prospects. Thus, the following hypotheses developed as:

1. H3a: Dividend policy reinforces the positive influence of accruals quality on the future market performance based on equity.
2. H3b: Dividend policy reinforces the positive influence of accruals quality on the future market performance based on earnings.

Tax management is intended to reduce the opportunity for tax exposure or high increase in tax costs, so it can be confirmed that tax management has low level of the discretionary tax accruals (Ryu, 2014, Hu *et al*, 2015, and Lee, 2016). By boosting up the involvement of investors in the taxation policy, it provides management incentives to comply with tax regulations by measuring discretionary tax accruals in tax management policies. Thus, the following hypotheses are prepared:

H4: Dividend policy reinforces the positive effect of tax management on the firm's future market performance.

1. H4a: Dividend policy reinforces the positive influence of tax management by discretionary tax accruals on the future performance based on equity.
2. H4b: Dividend policy reinforces the positive influence of tax management by discretionary tax accruals on the future performance based on earnings.

10. Data Collection Method

The population in this test is a public firm in the manufacturing industry registered at the Indonesia Stock Exchange in the period 2000-2018. The sampling technique of this study was purposive sampling. The type of data in this study is secondary data, obtained through ICMD (Indonesia Market Capital Directory).

11. Definition of Operational Variables: Future Performance

To pointed out the investors' anticipation testing, this empirical testing have the *time value* concept in predicting the future performance, that based on the Damodaran (2012) model and the approach of *life cycles* and *multistage growth models* (Bodie et al, 2013). Finally, the formula in predicting the future price have been arranged, as follow :

$$Estimated\ Price_{t+1} = P_0 (1+g_1)^t + \sum_{t=1}^T \frac{Div_t (1+g_1)^t}{(1+k)^t} + \frac{Div_{t-1} (1+g_2)}{(k-g_2) (1+k)^{t+1}} \dots\dots\dots(a)$$

We can provide this table 2 in giving an illustration the prediction of growth rates:

Table 2: Indicators of Future Performance Factor Level

Future Market Value	Description	Growth Rate (g)
<i>Future Performance Based On Equity</i>	The mean of Market Assets Growth for Each Firm x Period t Manufacturing Sector ... (1)	Rate g with future performance mean of asset's growth rate (1)
<i>Future Performance Based On Earnings</i>	The mean of Growth Rate Market Price of Each Firm x Period t Manufacturing Sector (2)	Rate g with future performance mean of earning's growth rate (2)

Source: The Compiled Data

11.1. Future Performance Based On Equity

The determination the growth rate in future performance is estimated by the mean of total asset's growth during the observation period, as shown out in table 2.

Future Performance Based On Equity is = Estimated Price_t / Equity_t (b)

11.2. Future Performance Based On Earnings

By using the indicators growth on measurement future earnings, it indicated on the mean of earnings's growth the observation period, as shown out in table 2.

Future Performance Based On Earnings is Estimated Price_t / Earning_t (c)

Description:

- a. P₀ is the market price in period t.
- b. Estimated Price_{t+1} = the stock market prediction rate for period t + 1.
- c. Div_{t-1} and Div_t = The amount of dividen in the previous and current period
- d. g₁ and g₂ = The rate of the previous and current growth.
- e. k% = The mean of annual interest rate

12. Independent Variable: Total Accruals Quality

This testing uses the model of Francis et al, (2005) in estimating the accruals quality in 5 time periods. The formula estimating the accruals quality through the regression equation is presented as follows:

$$TA_{j,t} = \alpha + \beta_1 CFO_{j,t-1} + \beta_2 CFO_{j,t} + \beta_3 CFO_{j,t+1} + \beta_4 \Delta Rev_{j,t,t+1} + \beta_5 PPE_j + \epsilon_{jt} \dots (d)$$

The Description:

1. $TA_{j,t}$ = Total Accruals of firm j in period t.
2. CFO_{t-1} , CFO_t and CFO_{t+1} = Previous, current and future period of Cash Flow
3. ΔRev = Revenue Change Rate for the Current and future Period.
4. PPE = Rate of Current Fixed Assets (Property Plant Equipment).
5. Total Accruals = $abs(\epsilon_{jt}) \times -1$, which the absolute residual value of the firm j period t $\times -1$ (Perotti and Wagenhofer, 2014).

The expectation variables are as follows: $\beta_0 > 0$; $\beta_1 > 0$; $\beta_2 > 0$; $\beta_3 > 0$; $\beta_4 > 0$; $\beta_5 > 0$

13. Independent Variable: Tax Management

In measuring tax management through discretionary tax accruals rate. The improvement of the discretionary tax accruals testing model (Ryu, 2014, Hu et al, 2015, Lee, 2016 and Choudhary et al, 2016) can be arranged as follows:

1. Total Tax Accruals, formulated as follows:

$$TTA_{j,t} = \alpha_1 + \lambda_{11} (\text{Net Profit})_{j,t} + \lambda_{12} (\text{Sales})_{j,t} + e_{j,t} \dots \dots \dots (e)$$

2. Discretionary Tax Accruals are formulated as follows:

$$DTA_{j,t} = abs(e_{j,t}) \times -1 = TTA_{j,t} - (\alpha_1 + \lambda_{11} (\text{Net Profit})_{j,t} + \lambda_{12} (\text{Sales})_{j,t} + \lambda_{13} (\text{Deferred Tax})_{j,t} + \lambda_{14} (\text{Tax Liability})_{j,t}) + e_{j,t} \dots \dots \dots (f)$$

The expectations for each variable are $\lambda_0 > 0$; $\lambda_{11} > 0$; $\lambda_{12} > 0$; $\lambda_{13} > 0$; $\lambda_{14} > 0$

The Description:

1. Net Profit = Net profit of firm j in period t.
2. Sales = The rate of firm j Sales in period t.
3. Deferred Tax = The Deferred Tax Rate of firm j in period t.
4. Tax Liability = The Amount of Payable Tax for firm j in period t.

14. Moderation Variables: Dividend Policy

This research uses the dividend policy as the moderating variables, which are variables that can reinforce or enervate the direct relationship between the independent and the dependent variable. The relationship between both variables can be positive or negative depending on the moderating variable, commonly known as the contingency variable.

The dividend pay out policy formula is $\frac{\text{Dividend}}{\text{Net Income}} \dots \dots \dots (g)$

15. Control Variables: Firm Size (Size)

Dahlia and Utama (2014) confirmed that the firm size influences on the pattern of earnings management. The proxy of the amount of the net sales changes, indicates that the influence of large companies have the ability to obtain high net incomes, as researched by Fama and French (1997), Baker and Wurgler (2004), and Desai *et al*, (2004). This empirical test uses the natural logarithm (ln) of firm current total assets in minimizing the gap of measurement asset value..

16. Control Variables: Sales Growth

This research uses the indicator of sales growth as a control variable, which is the growth rate of revenue from net income along one year. The formula for calculating the growth rate of the firm's sales is developed as follows: (Istianingsih, 2010)

$$SGt = ((Sales t - Sales t-1) / Sales t-1) \dots\dots\dots (h)$$

Description:

- 1. Sales t = net sales of the current period
- 2. Sales t-1 = net sales of previous period

17. Risk Level

The level of risk uses beta stock as an indicator of systematic risk that affects stock returns (Brigham and Houston, 2011 and Ross et al, 2007). The formulation of the beta coefficient of the firm's stock in a period of time is marked by the β_i coefficient and can be formulated, as follows:

$$\beta_iM = \sigma_i / \sigma_M \times \rho_{iM} \dots\dots\dots (i)$$

18. Descriptive Analysis of Research Objects

We provide the summary of firm data is presented in the form of tables, as follows:

Tabel 3: The Structure of Research objects

Description	Total
1. <i>Go Public</i> firm from 2000-2018	538 Companies
2. <i>Manufacturing</i> firm conducting Dividen policy	155 Companies
3. The Conducted Observations	2.256 Observations
4. Observations on firm conducting Dividen policy	1.251 Observations
5. Observations failure in testing Outlier	68 Observations

Source: Secondary data processing

19. The Statistical Test

In reaching out the biased linerarity unstandardized estimating (BLUE) criteria, this research uses the outlier tests and classical assumption tests. The outlier data with the Winzorize method used 1.183 observations that have passed this test from all 1.250 observations. The results of normality test indicate that there are no operational variables that are normally distributed. The significant value of < 0.05, the table indicates the level of abnormal data. By using the central limit theorema approach (Hair et al. 2010; Gujarati, 2011) used for large sample sizes, when the test use a sample value of $n > 30$, there is a tendency to follow the normality curve.

The proof of the central value theorem (central limit theorem) is as follows:

If \bar{X} is the mean of a sample with size n taken from the population with the mean μ and variance σ^2 , then the limit distribution $Z = \frac{\bar{x} - \mu}{\sigma/\sqrt{n}}$ is close to the standard normal distribution when $n \rightarrow \infty$. Mathematically can be written in

the equation as follows: $\lim_{n \rightarrow \infty} P(Z \leq \pi) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{\pi} e^{-\frac{y^2}{2}} dy$

The empirical testing results are seen in the table below:

Tabel 4: Normality test of Operational Variables

One-Sample Kolmogorov-Smirnov Test				
No	Operational Variables name	Test Statistic	Asymp. Sig. (2-tailed)	Keterangan < 0,05
1	Total Accruals Quality	0.30	.000 ^c	Abnormal
2	Tax Discretionary Accruals	0.25	.000 ^c	Abnormal
3	Future Performance on Earnings	0.48	.000 ^c	Abnormal
4	Future Performance on Equity	0.49	.000 ^c	Abnormal
5	Dividen Pay Out	0.13	.000 ^c	Abnormal
6	Log Total Asset	0.06	.000 ^c	Abnormal
7	Pertumbuhan Sales	0.49	.000 ^c	Abnormal
8	Tingkat Resiko	0.07	.000 ^c	Abnormal

Test distribution is Normal.

Catatan: Tingkat signifikan 5 %

By obtaining the Variance Inflation Factor (VIF) and Person Correlation Matrix. VIF rates indicate that there is no high colinearity and multicollinearity (2011). The test results in table 5 below:

Tabel 5: The Heteroskedacity Test on Total Accruals Quality's Measurement

No	Operational Variables name	t	Sig.	Collinearity Statistics	
				Tolerance	VIF
1	Total Accruals Quality	25.413	.000	.728	1.373
2	Tax Discretionary Accruals	9.495	.000	.291	3.437
3	Dividen Pay Out	9.598	.000	.962	1.039
4	Total Accruals Quality Moderation	-4.657	.000	.033	3.214
5	Tax Discretionary Accruals Moderation	-.883	.037	.029	3.028
6	Log Total Asset	-.987	.032	.915	1.093
7	Sales Growth	-.830	.004	.984	1.016
8	Risk	.628	.043	.888	1.127

Note: Significant level 5 % (F5%, 1.183)

Source: Secondary data processing .

In autocorrelation test as a rule of thumb, Gujarati, (2011) stated that the rate of $d_u = 1.84513$ and $d_l = 1.9356$, the maximum rate is $4 - 1.84512 = 2.15487$. The test proves a good regression model, because it is free from autocorrelation.

1. The test of First Model is between future performance based on book rate with accruals quality, there is a Durbin Watson rate of 2.008.
2. The test of the Second Model is between future performance based on book rate and the accruals quality, there is a Durbin Watson rate of 1,975.

20. The Statistical Testing

By using software SPSS in doing the multiple regression model, this empirical research have two testing model, based on the measurement of future performance.

1. Testing For Future Performance on Equity

The test uses future performance based on book value, the multiple regression test can be formulated as follows:

$$\text{Future Performance On Equity} = 0.25 + 1.87 X1 - 8.30 X2 + 4,02 X3 + 2.98 X4 + 5,80 X5 + 0.07 X6 + 0.203 X7 - 0.56 X8 + \text{error} \dots \dots \dots (1)$$

2. Testing For Future Performance on Earnings.

The test uses future performance based on earnings, the multiple regression test can be formulated as follows:

$$\text{Future Performance On Earnings} = 0.69 + 4.78 X1 - 2.13 X2 + 1.14 X3 + 9.32 X4 + 2.69 X5 + 0.018 X6 + 0.453 X7 + -0.208 X8 + \text{error} \dots \dots \dots (2)$$

The result of multiple regression model testing is presented in tabel 6 below:

Tabel 6: The Coefficient of Multiple Regression With Total Accruals Quality

Basic measurement The Independent Variable	Future Performance Based on Equity			Future Performance Based on Earnings		
	Coefficient	t	Sig	Coefficient	t	Sig
Operational Variable						
1. Constant Coefficient Rate	0.258	1.974	0.049	0.692	2.003	0.045
Dependent Variable						
2. Accruals Innate (X1)	1.87	5.628	0.000	4.78	5.454	0.000
3. Discretionary Tax Accruals (X2)	-8.30	-16.813	0.000	-2,13	-16.371	0.000
4. Dividend Pay Out (X3)	4.02	5.826	0.079	1,433	6.273	0.055
5. Accruals Innate Moderation(X4)	2.98	11.074	0.000	9.320	13.104	0.000
6. Discretionary Tax Accruals Moderation(X5)	5.80	1.882	0.001	2.698	3.319	0.001
Control Variable						
7. Total Asset Log (X6)	0.071	0.821	0.041	0.018	0.798	0.042
8. Sales Growth (X7)	0.203	0.038	0.097	0.453	0.033	0.097
9. The Risk (X8)	-0.563	-0.129	0.089	-0.208	-0.181	0.085
a. Analysis Of Variance Calculate F Test	152,474 (> Calculate F, 0,513) 0.0000 (< 0.05)			113.868 (> Calculate F, 0,341) 0.0000 (< 0.05)		
b. Significance Level	0.562			0.678		
c. Adjusted R Square	0.750			0.680		
d. Coefficient R Square	2.008			1.975 (1.845 < X <2.154)		
e. Durbin Watson Rate						

Note: Level of significant 5 %

Calculate F =(0.01,0,513)

Source: The Secondary Data Processing

21. The Analysis For Statistical Testing

The equation of the regression model (1) dan (2) indicates the constant coefficient rate that has a positive contribution to market performance based on book rate, including the positive perception of improvement accruals quality against on the expansion’s prospect. This test indicates that the first hypothesis (H1a) is accepted, when investors know the use of accruals in low level and all management’s effort in levelling up the the accruals quality, it will have a positive effect in the future performance. Based on the previous study, there is negative perception on usage of accruals, because of a misleading information in financial statement. Although this research have two different indicator for future performance, it have the same empirical testing, it can be seen that every management effort in leveling up the usage of accruals quality, it will sign “good news”. By obtaining the high earning quality, it help the investor out estimate the required return in accurate ways and the management deduct the agency cost.

The tax management variable indicates that the number of the influence coefficient of discretionary tax accruals on future performance has a negative and significant level. It means the tax management have no contribution on improvement earning quality. The management tend to use the dynamically the tax payment, it reflect the company’s willingness to make the high or low tax payment, which has no relationship to improve the earning quality. The test shows that the second hypothesis (H2a) is rejected the investor's perception will be negative, when there is no an influence relationship.

The test of the moderating variable of the accruals quality has a positive contribution, this reflects the implication between the good quality of total accruals accompanied by the expected dividend policy. This reflects that the third hypothesis (H3a) is accepted, The dividend policy take on management a pressure to improve the earning quality and minimize the possibility of using accruals. This one forces the investor’s involvement in monitoring and checking every strategic decision. This empirical result has reinforced the the previous study, that dividend policy was used to sign “positive” for illustrating the current firm’s performance. It is empirical explanantion about high yielded dividend pay out in Indonesia, the other advantages is to pave the management out for planning the expansion in the future, especially the reduction of company’ risk.

In testing the tax management moderation variable, it shows that dividend policy have no contribution on the ability of management to make higher or lower tax payments. The results of this test indicates that the fourth hypothesis (H4a) is rejected, because the tax management have no positive contribution on future performance. The relationship dividend and tax management have restricted on interaction significantly. Based on the moderation testing are arranged in table 7 below:

Tabel 7: The Moderation Testing of *Total Accruals Quality* and *Dividen Policy*

Basic Measurement	<i>Future Performance Based on Equity</i>			<i>Future Performance Based on Earnings</i>		
	Dividend Policy	Total Accruals Moderation	Tax Management Moderation	Dividen d Policy	Total Accruals Moderation	Tax Management Moderation
Signifikan	0.079/2	0.000/2	0.000/2	0.055/2	0.000/2	0.000/2
Result		Significant	Significant		Significant	Significant
Cocnclusion		To strenghen	Interaction		To strenghen	Interaction

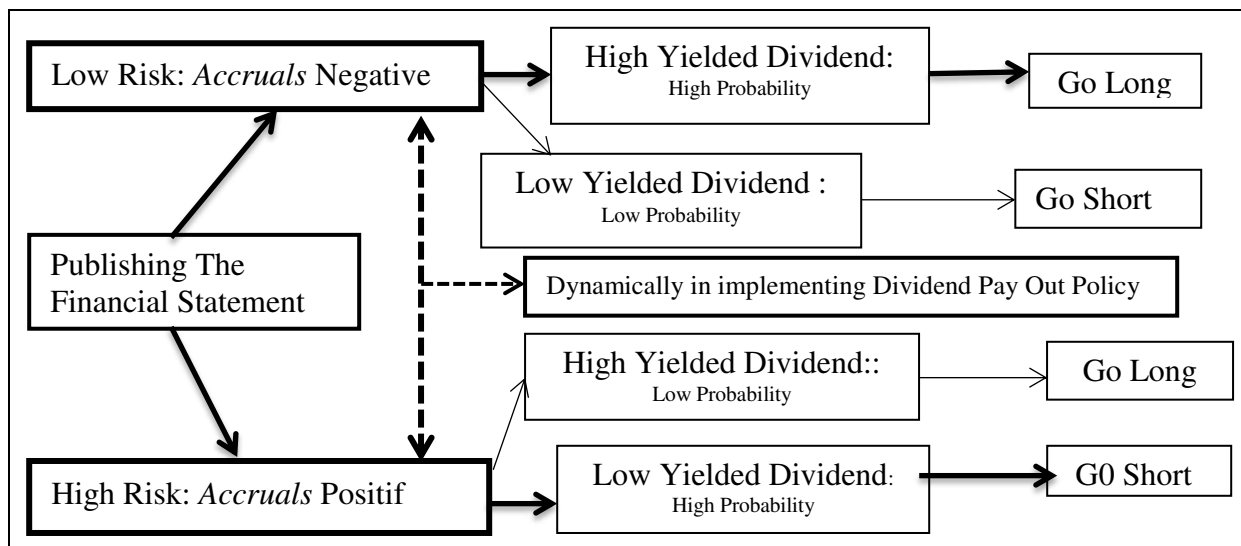
By doing the significant level by one tail, where the significant level had been divided by two. Both the moderation are in significant level, when the sig level is lower than dividend's sig. The table 7 shown out the dividend have been a moderation variable to strengthen total accruals quality on the future performance, the dividen forces management to minimize the using of accruals and improve the total accruals quality in obtaining the the positive investor's perception. The dividend have not been a moderation to strengthen or weaken tax management on the future performance. The combination of implementing the dividen and tax management could have the positive perception, when the investor could estimate the potential possibility of tax liability exposure.

22. The Control Variabel Testing

By testing the control variable, it signifies that asset growth and sales level has reduced out the risk. This test shows that the high investor's sensitivity on future prospect, it has pointed out the rising of sales and total asset as the critical indicator for expansion in future. The growth of the firm's performance runs very slowly or low in expansion, it can be seen by the negative rate of the sales growth coefficient. including the increase of the risk level. When the management had succed to develop the new business, it gave been a reduction factor for risk level, it can be predicted company's willingness to fulfill the required return in future.

23. The Mapping of Investor Reaction to Financial Report Publicity

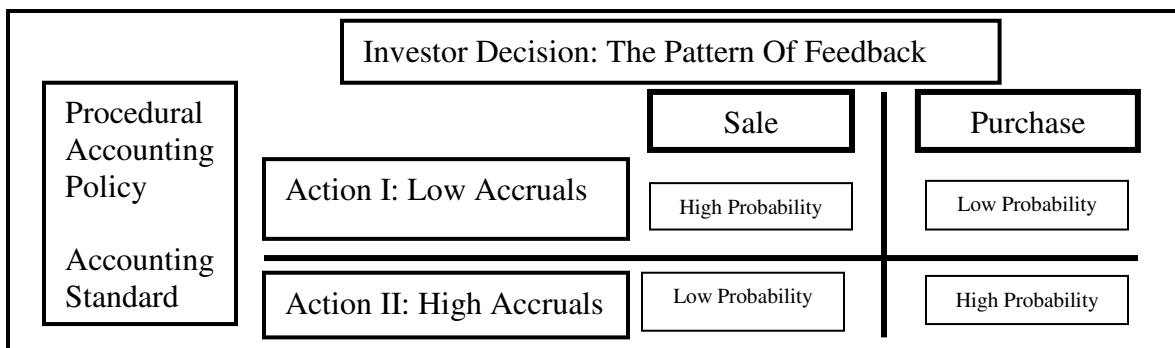
By looking over the relationship accruals quality and future performance, this empirical testing used the tree decision model to trace out the investor ability in estimating the using of accruals. The mapping of *decision tree model* between the management behavior and *investor* reaction, it can be seen in the figure below.



Note: The empirical result Go Short = to sell Go Long = To purchase

Figure 3: The Mapping of Investor Reaction to Financial Report Publicity By Decision Tree Model on earnings management and Dividen policy

By using figure 3, this testing illustrates a relationship between investor's decision and the accounting policy has a reciprocal relationship and provides feedback. This reflects an the game theory is in terms of the financial statements publication period, so that for the understanding the pattern of interaction process between the publishing period and investor reactions, the figure is arranged as below.



Note: In this way illustrates that the decision making depends on the policies taken by the firm in publishing financial reporting, because of discretionary authorize in determining the method of accounting calculation.

Figure 4: Game Theory between Accounting policy and Investor’s Behaviour

This empirical research have to verify the existence of the game theory, regarding the relationship between the using of accruals in financial information and investor’s perception, it can be explained by the concept of improvement the earnings quality. This empirical test illustrates the behavior of management in carrying out the accruals in performance reporting, absolutely it can influence the judgment and valuation in reviewing the firm’s operational policy. The game theory is used to show out the investor’s preference on the firm policies and accounting policy, which plays an important role in taking the decisions making. By conducting a relationship between financial statements and investor behavior, the game theory pattern is arranged in illustrating the feedback flow, related to the issuance of the annual financial statements.

23. Conclusion

This empirical study has several conclusions, which can be presented as follows:

1. The accruals quality test on the book value-based market performance indicates a positive contribution, as well as the empirical tests on the future performance on earnings. The positive contributions indicate that investor perceptions are positively formed by the use of accruals quality in publishing the financial statement, thus the use of accruals is not entirely opportunistic and it is used by management as a communication process regarding future firm prospects. The negative contributions are formed when the pattern of opportunistics cannot be detected by capital market players, especially in distinguishing the “prospective” firms, which conduct the positive or negative manipulation.
2. This test verifies that the tax management policy through discretionary tax accruals quality encourages the management to reduce out the accruals quality, this is demonstrated by the lower ability to pay taxes. The tax management is able to make the positive contribution on the future performance based on equity and earning, when the investor realize that it can level down the tax exposure in the future. The positive contributions are formed, when management has a willingness to pay the tax rate in accorandce with the tax provisions by reducing out the ability to pay higher or lower.
3. The measurement of accruals quality indicates that dividend policy encourages management to reduce out the accruals quality at a lower level, related to the determined performance achievement in the future. The positive contribution on the dividend policy, when the high quality of accruals is expected to be able complying the level of investment expectations, so that it has a tendency to be a positive perception. The negative contributions are formed, when a firm has a low level of accruals quality, management tends to use a

dividend policy as a measurement indicator for the estimating the company's prospects in future. It sign that the operational in this company has been run well.

4. The moderation testing on tax management that the dividend policy could not strengthen or weaken the usage of discretionary tax accruals, because of the in-consistent in planning the tax payment. The proclivity of management is to make the adjustment into the management tax dynamically, it depends on the management objection in determining the firm value. When the investor have been involved in designing the tax management, it supported the dividend policy for contributing positively to the future performance. By predicting the capability to expansion in the future, it indicates that the dividends policy and tax management payment give the proper estimation in the future, uncluding tax obedience against the tax regulation.

24. Recommendations for Further Research

Based on the results of empirical testing, the recommendations are suggested as follows:

1. For further research can be expected to develop a novelty in research method that is able to combine primary and secondary data, particulary an innovations usage in a "representative" model.
2. In measuring the level of accruals quality, the future research expects a more comprehensive measurement of accruals quality, it can help out that investor to distinguish the signal "good" and "bad" for predicting the company performance in the future, which has are more "valid" and "easy" indicators.

BIBLIOGRAPHY

- Agustina, Linda and Baroroh, Niswah, (2016), "The Relationship Between Enterprise Risk Management (ERM) And Firm Value Mediated Through The Financial Performance", *Rev. Integr. Bus. Econ. Res.* Vol 5(1) 128
Copyright 2016 GMP Press and Printing
- Alwi, Syaruddin (2009), "Dividen and Debt Policy as Corporate Governance Mechanism : Indo nesia Evidence". *Journal Pengurusan* no 29.
- Aldamen, Husam and Duncan, Keith, (2016)," Does Good Corporate Governance Enhance Accruals Quality During Financial Crises? Accounting And Information Systems", *Managerial Auditing Journal*; Vol 31 no 4/5, 2016 pp 434-456
- Baker H. Kent and Gary E. Powell, (2015), "Dividend Policy In Indonesia: Survey Evidence From Executives", *Journal of Asia Business Studies*, Vol. 6 Iss 1 pp. 79 – 92v
- Balakrishnan, A (2016), "Size, Value, and Momentum Effects in Stock Returns:Evidence from India", *Vision* 20(1) 1–8 © 2016 MDI SAGE Publications
- Ball, Ray and Philip Brown. (1968). "An Empirical Evaluation of Accounting Income Number". *Journal of Accounting Research*. Vol 6
- Bandi. (2013), "Finance Perspective versus Accounting Perspective: The Case of Earnings Persistence in Indonesia", *International Journal of Economics and Finance*; Vol. 4, No. 9; Published by Canadian Center of Science and Education.

- Bassiouny, Sara W., Soliman. Mohamed Moustafa, Ragab Aiman, (2016), “The Impact Of Firm Characteristics On Earnings Management: An Empirical Study On The Listed Firms In Egypt”, Feb 2016, *The Business and Management Review*, Volume 7 Number 2.
- Beaver, W. H. (1968). “The Information Content of Annual Earnings Announcements”. *Journal of Accounting Research*. (Vol. 6. Tahun 1968). Hlm. 67-92.
- Bhattacharya Nilabhra, Hemang Desai and Kumar Venkataraman, (2012), “Does Earnings Quality Affect Information Asymmetry? Evidence from Trading Costs”, *Contemporary Accounting Research*, Volume 30, Issue 2, pages 482–516, Summer 2013 (June)
- Bodie, Z., A. Kane, and A. J. Marcus. (2013). “*Investment*”. 10th ed. McGraw Hill New Jersey.
- Chaudhary, Ghulam Mujtaba., Hashmi, Shujahat Haider., Younis, Aqeel., (2016), “Does Dividend Announcement Generate Market Signal? Evidence from Pakistan” , *International Journal of Economics and Financial Issues*, 2016, 6(1), 65-72.
- Dahlia and Utama, Sidharta, (2014), “Manajemen Laba And Pengungkapan Corporate Social Responsibility Dengan Kompleksitas Akuntansi And Efektivitas Komite Audit Sebagai Variabel Pemoderasi”, *Universitas Mataram*, Lombok, Sept 2014
- Darmodaran, Aswath, (2012), “Investment Valuation 3rd Edition Tools and Techniques for Determining the Value of Any Asset “ 3th edition, *John Wiley & Sons Inc*, New York, United States, 17 Apr 2012
- Desai, M,(2003),”The Divergence Between Book Income And Tax Income”. *Tax Policy Econ* 17(1):169–206
- Deshmukh, Sanjay, (2005), “The Effect of Asymmetric Information and Dividend Policy ”.*Quarterly Journal of Business and Economics*, Vol 44, No 1 & 2, pp.107-127.
- Díaz Aníbal Baez, Alam Pervai, (2012),”Tax Conformity Of Earnings And The Pricing Of Accruals”, *Rev Quant Finan Acc* (2013) 40:509–538 DOI 10.1007/s11156-012-0275-2, Springer Science+Business Media, LLC 2012.
- Dichev, Ilia., Graham, John., Harvey, Campbell R. and Rajgopal, Shiva, (2016), “The Misrepresentation of Earnings”,*Financial Analysts Journal* Volume 72 • Number 1, ©2016 CFA Institute
- Dopuch, N., Mashruwala, R., Seethamraju, C., & Zach, T. (2012). “The Impact Of A Heterogeneous Accrual-Generating Process On Empirical Accrual Models”. *Journal of Accounting, Auditing, and Finance*, 27, 386–411.
- Elayan Fayez A, Li JingYu, Frank Liu Zhefeng, Meyer Thomas O, Felton Sandra, (2016), “Changes in the Covalence Ethical Quote, Financial Performance and Financial Reporting Quality”, *Journal Business Ethics*, 2016, 134:369–395
- Eskandari, Majir., Foumani, Abbas Adham., (2016) “The Study Of Economic Crisis Role On The Accounting Quality In Accepted Companies On Tehran Stock Exchange”, *Kuwait Chapter of Arabian Journal of Business and Management Review* Vol. 5, No.9, May 2016
- Francis, J.; R. La Fond; P.M. Olsson; and K. Schipper.,(2005). “The Market Pricing Of Accruals Quality”, *Journal Of Accounting and Economics*, 39 (2005), 295 - 327.

- Gordon, Myron J. (1963). "The Investment Valuation And Financing Of The Corporation". Homewood. IL. *Journal Of Finance*, May 1963.
- Gujarati ,D. (2011), "Basic Econometrics", Fifth Edition, Mc GrawHill Publishing Firm
- Hanlon, M. (2005). "The Persistence and Pricing of Earnings, Accruals, and Cash Flows When firms Have Large Book-Tax Differences", *The Accounting Review*, Vol. 80, No. 1, January: 137 - 166."
- Hanlon M, Shevlin, Terry, (2005) "Book-Tax Conformity for Corporate Income: An Introduction to the Issues" . *Tax Policy and the Economy, Volume 19 September 2005*
- Hair, Joseph Jr.,Black William.C., Babin, Barry.J.. Anderson, Rudlph., (2010), "Multivariate Analysis : Global Perspective", Seventh Edition, 2010, Upper Saddle River New Jersey : Pearson Prentice Hall
- Hull, Robert M, Kwak Sungkyu and Walker Rosemary L. (2016) "Insider Behavior And R&D Changes Around Seasoned Equity Offerings", *Journal Business Ethics* ,2016, 40:258–276
- Hu, Nanwei, Qiang Cao, Lulu Zheng,(2015) "Listed Companies' Income Tax Planning and Earnings Management: Based on China's Capital Market", *Journal of Industrial Engineering and Management JIEM*, 2015 – 8(2): 417-434
- Ifada, Luluk Muhimatul; Wulandari, Nova. (2015), The Effect Of Deferred Tax And Tax Planning Toward Earnings Management Practice: An Empirical Study On Non Manufacturing Companies Listed In Indonesia Stock Exchange In The Period Of 2008-2012, *International Journal of Organizational Innovation (Online)*; (Jul 2015): 155-170.
- Jeong-Bon Kim, Byungcherl Charlie Sohn, (2013), "Real Earnings Management And Cost Of Capital". *Journal. Accounting. Public Policy* 32 (2013) 518–543.
- Johnston, J. A., (2009). "Accruals Quality and Price Synchronicity." *PhD Thesis*, Louisiana State University, 2009.
- Kaplan, M. (1996). *Decision Theory as Philosophy*. Cambridge University Press.
- Kent, Pamela.,Routledge, James, Stewart, Jenny., (2008), "Innate And Discretionary Accruals Quality And Corporate Governance, *Bond Business School Publication, ePublication@bond*, July, 2008.
- Kerstein, Joseph., Rai, Atul, (2007), "Working Capital Accruals And Earnings Management", *Investment Management & Financial Innovations*, Volume 4, Issue 2,
- Khotari, S.P, Andrew J Leonne, Charles E Wesley, (2005), "Performance Matched Accruals Measures", website : *MIT.Org*
- Lee, Charles M.C., (2001), "Market Efficiency And Accounting Research: A Discussion Of 'Capital Market Research In Accounting' By S.P. Kothari" *Journal of Accounting and Economics* 31 (2001) 233–253
- Lee, Hyun Ah (2016), The Usefulness Of The Tax Avoiandce Proxy: Evidence From Korea, *The Journal of Applied Business Research – March/April 2016 Volume 32, Number 2*
- Leuz, C., Nanda, D., and Wysocki, P. (2003). "Earnings Management And Investor Protection: An International Comparison". *Journal of Financial Economics*. 69.

- Mahdiye Ebrahimpour, Heydar Mohammad Zadeh Salteh, Rasoul Baradarane Hasan Zadeh, (2013), "The Study Of The Effect Of Dividend Earnings On The Quality Of Earnings With Emphasis On The Industri Type", *European Online Journal of Natural and Social Sciences* 2013; vol.2, No. 3(s), pp. 1034-1042
- Martínez ,Ferrero Jennifer, Banerjee Shantanu, Mari'a Garcí'a-Sa'nchez, Isabel, (2016), "Corporate Social Responsibility as a Strategic Shield Against Costs of Earnings Management Practices", *Journal Bussiness Ethics* (2016) 133:305–324
- Myring, Mark (2006), "The Relationship Between Returns And Unexpected Earnings: A Global Analysis By Accounting Regimes", *Journal of International Accounting, Auditing and Taxation*, 15 (2006) 92–108
- Nekhili, Mehdi, Ines Fakhfakh Ben Amar, Tawhid Chtioui, and Faten Lakhal, (2016), "Free Cash Flow And Earnings Management: The Moderating Role Of Governance And Ownership", *The Journal of Applied Business Research – January/February 2016 Volume 32, Number 1*
- Nurul Herawati and Zaki Baridwan, (2007), "Manajemen Laba pada perusahaan Yang Melanggar Perjanjian Utang", *Penelitian Universitas Hasanuddin, Makassar*, Juli 2007
- Partami ,Ni Luh Ningsih., Sinarwati, Ni Kadek Sinarwati, Darmaeen, Nyoman Ari Surya Darmawan. (2015), "Pengaruh Manajemen Laba Riil Terhadap Nilai Perusahaan Dengan Corporate Governance Sebagai Variabel Pemoderasi (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia)", *e-Journal Universitas Pendidikan Ganesha Akuntansi* (Volume 3 No.1 Tahun 2015)
- Perotti, P., & Wagenhofer, A. (2014). "Earnings Quality Measures and Excess Returns". *Journal of Business Finance & Accounting*, 41(5&6), 545-571.
- Ping Ke (2016), "Do Investors Price Accruals Quality for Firms Charged with Poor Reporting Quality? ", *Pacific Journal Business Research, PPJBR* Vol.7, No.1, Spring 2016, pp 2-23
- Povolotskaya, Yana (2014), "Does The Quality Of Accruals Affect Future Firm Performance ", *The Published Research, Erasmus University Rotterdam*, Nov 2014.
- Puspitaningtyas, Z. (2011), "Manfaat Informasi Akuntansi untuk Memprediksi Risiko Investasi Saham Berdasarkan Pendekatan Decision Usefulness", *Disertasi. Program Pasca Sarjana Universitas Airlangga Surabaya*.
- Ratnadi, Ni Made Dwi , Sutrisno T, M. Achsin, Aji Dedi Mulawarman, (2013), "The Effect of Shareholders' Conflict over Dividend Policy on Accounting Conservatism: Evidence from Public Firms in Indonesia", *Research Journal of Finance and Accounting*, Vol.4, No.6, 2013
- Ross, Stephen A, Westerfield Randolph W , Jaffe Jeffrey, (2007), "*Fundamental of Corporate Finance*", McGraw Hill, Alternate Edition, 2003,"
- Rosner, Rebecca L. Summer, (2003) "Earnings Manipulation in Failing Firms". *Contemporary Accounting Research*, Vol. 20, No. 2. pp.361-408.
- Roychowdhury, Sugata. (2006). "Earnings Management Through Real Activities Manipulation". *Journal of Accounting and Economics* ", Vol. 42 No. 3: 335-370.
- Ryu, Hae Young (2014), "The Effect Of Book-Tax Conformity On The Use Of Accruals: Evidence From Korea", *The Journal of Applied Business Research – May/June 2014 Volume 30, Number 3*.

Scot, W.R., (2015), "*Financial Accounting Theory*", Prentice Hall, Scarborough

Syed Zulfiqar Ali Shah , Hui Yuan , Nousheen Zafar (2010), "Earnings Management and Dividend Policy An Empirical comparison between Pakistani Listed Companies and Chinese listed Companies", *International Research Journal of Finance and Economics* ISSN 1450-2887 Issue 35 (2010)

Tresl, Jiri, (2013), "Two Essays On Payout Policy", *Disertation*, University of Nebraska, Lincoln, Nebraska, May, 2013

Watts, R. and Zimmerman,J.L.,(2003), "*Positive Accounting Theory*", New Jersey: Prentice-Hall, Inc."

Zarowin, Paul (2015)," Estimation of Discretionary Accruals and the Detection of Earnings Management" , *Oxford Handbooks Online*, Publication Date: May 2015

Zhang, Yan., Huang, Pinhsun.,Deis, Donald.R., Moffitt, Jacquelyn. (2006), "Discretionary Accruals, Hedging, And Firm Value", *Unpublished Research Binghamton University*, State University of New York, Binghamton, NY 13902

Zuo Ling-Yan, (2015), "Abnormal Accruals and the Predictive Ability of Future Cash Flows: Evidence in China", *Advances In Management* Vol. 8 (4) April (2015).