

## **“THE INFLUENCES OF ACCRUALS QUALITY AND TAX MANAGEMENT ON THE FUTURE MARKET VALUE: CASE STUDY OF THE LISTED FIRM ON INDUSTRY MANUFACTURING SECTORS“**

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### **Abstract**

This empirical research has proven that the investor insisted on the management to level up the earnings quality constantly, there is no tolerance for any distortion, including the negative effect of opportunistic accruals. The high earning quality paves out the way for the investor to calculate the future return accurately, by minimizing the volatile movement of market price and agency cost. This research tested how the accruals quality and tax management influences the investor's perception in the future, that measured by future market value. The observation data had used the samples on the listed company in the industrial manufacturing sector for the period 2015 until 2017, which had amounted to 384 observation data. This multiple regression model with data panel has used the discretionary accruals quality, tax management, and future market value, the result is the earnings quality has a positive influence on the future market value significantly. The management should carry out consistently all available tax accounting standards and tax regulations at the maximum level without any infringement, this one is related to deduct the risk. It is an implication of the Signalling and Regulation Theory. The investor has realized the gap between the accounting standard and tax regulation intolerance zone, absolutely it has no crucial impact on the volatile movement of the market price. Primarily they concern about the high book and tax accruals, meanwhile ignoring both positive or negative. Principally, the high-quality accounting information has a contribution to predicting the better-expected return accurately in the future period, this is aimed to protect the investment in the high safety area.

**Keyword:** Discretionary Accruals Quality, Tax Management, Future Market Value,

### **Introduction.**

This current research has been concerning how the fundamental role of financial reporting quality makes a volatile fluctuation of market price momentarily. (Elayan, Li, Liu, Meyer, & Felton, 2016) and (Bassiouny & Ragab, Mohamed Moustafa, Soliman, 2016) pointed out that a strong pressure on management to level up the higher quality of financial reporting accurately. The positive investor's perception could be formed by obedience to the accounting standard at a high level so that this accounting information purely illustrated the actual earnings. The investor who emphasizes financial reporting quality considerably is the majority shareholder, which has an authority party in funding the strategic operational activity (Mehrani, Moradi, & Eskandar, 2017). The accounting accruals had the existences potentially, meanwhile, this one had yielded the high probability of gaining the abnormal return during the publication period, because of a gap between the actual and expected return (Ping, 2016). (Abbadi, Hijazi, & Al-Rahahleh, 2016) underlined that the high earning quality is an indicator of the low opportunity accruals, so the expected return could be predicted precisely and the risk was low in the future period. (Jonathan & Machdar, 2018) found some companies in Indonesia had low accruals quality, directly it pointed out that this low-quality accounting information did not illustrate purely actual earnings.

By highlighting the investor's primary demand for high compliance, the practical implication is to force management to carry out the tax regulation at the maximum level. The management has a high tendency to deduct the taxable earnings, where the reduction of these expenses as tax saving should be "the good achievement" (Ifada & Wulandari, 2015). When this tax management has been detected to contain any infringement, so the probability of tax investigation will be high, then potentially the extra agency cost in the future period as "bad news". Related with the future return clearly, (Lee, 2016) underlined that, these high tax accruals had brought the investor into the negative perception, which the consequences are the negative movement of the market price. The investor emphasized on zero tolerance level of the tax investigation, because of the fluctuation of the additional cost. The investor has accentuated the high quality of tax management thoughtfully, it depicts the obedience on tax regulation at maximum level as "good news" to cover up their secured safe investment.

The opportunities behavior can be manifested by the negative relationship between earnings management and tax planning (Hu, Cao, & Zheng, 2015), this is a phenomenon in this accounting and tax accruals. Based on the previous study, the accruals have a negative contribution on investor's perception (Dichev, Graham, Harvey, & Rajgopal, 2016) and high systematic risk (Savor & Wilson, 2016), is correlated with the high distortion in earnings. By testing the impact of accounting and tax accruals on the future return statistically, this research has developed out the term of quality of this accruals, so it indicates that the higher accruals quality, the higher prospect in the future, and the implementation on the accounting standard and tax regulation in maximum level, where it refers to the low risk distinctly. Evidently, the research has concerned on the effect of the high accounting information quality on the future market value, because of the lower cost of capital and relatively unchanging agency cost as the strategic advantages.

### **Problem Identification.**

The formulation of this research problem can be arranged, as below:

1. Does this accruals quality has a positive contribution to the future market value?
2. Does this discretionary tax accruals quality has a positive contribution to the future market value?

### **Signalling Theory**

This theory had enlightened the divergence of capability in assessing the information between management and investor, because of asymmetric information. The management had the dominant information, so it was known as conflict of interest. As a responsibility in managing the firm asset, the management used the publishing of financial reporting periodically to spread the valid information widely, including the communication process for sending a real signal. Limitlessly, the investor could assess the signal in calculating the expected return in the future, mostly "the good news" affects the

positive movement of market price as a response from investor's perception on the financial reporting' quality (Bhattacharya, Desai, & Venkataraman, 2012)

By analyzing a signal from high quality earning quality cautiously, the accruals had been a signal of efficient contracting (Scott, 2016). It was a signal for the good prospect in the future, which is the guideline to state the management on the right track, particularly fulfilling the expected return in the following period. When accounting information had low quality as "bad news", it is the pattern of dysfunctional behavior. Because of the opportunity motive, the management has a proclivity to share a misleading signal, where the target has not yet been reached out in the current period (Dichev et al., 2016).

### **Regulation Theory.**

Based on regulatory capture theory, (Stigler, 2012) stated that the fiscal policy as the government's intervention has contributed to the company's earnings commonly, which has the authority to fix out the tax tariff and regulation. There was a different method of calculating the taxable income and net asset as an implication of the gap between accounting standard and tax regulation (Godfrey, Jayne, Hodgson, A., Tarca, A., Hamilton, Jane., Holmes, 2014). Thus, the company should carry out this available regulation, where is related to the fluctuation of agency cost. By mulling overall investment as a secured safe area, the investor took a concern on the high compliance, particularly the tax regulation. Meanwhile, there was a high effect of penalty fees for any violation, so that the investor demanded management to carry out this regulation precisely (Eskandari & Foumani, 2016). Because of the fiscal policy related to taxable income, tax management was a part of estimating high-quality accounting information. When the tax management had high tax avoidance, it has a negative contribution to investors' perception, and the tax high conformity had influenced positively on the movement of the market price (Ryu & Chae, 2014).

### **Hypothesis.**

Concerning the negative perception of accruals, management tended to cover up the accruals by releasing out much of the immaterial disclosure, which created out an obstacle in detecting the opportunity behavior (Martínez-Ferrero, Banerjee, & García-Sánchez, 2016). Substantially, the high involvement of shareholder is to minimize the opportunistic accruals, where the existence of accruals have been always wide open. When the financial reporting has high-quality earnings, it can be predicted that the company is at low risk, indirectly it does not sign the volatile movement and illustrate the actual earnings exactly, so estimating for the better-expected return in this future precisely. By looking over the impact of earning quality on the current expected return (Shin & Kim, 2018) and (Dempster & Oliver, 2019), and the impact of accruals have been over a period (Savor & Wilson, 2016), empirically this research has proven the patterned relationship of the earnings quality on the future return. The high quality earning which has been quantified by the discretionary accruals

quality influences on the future market value positively has referred to the Signaling Theory. The higher earnings quality, the higher future market value, it means that the investor's acceptance tolerance considerably is low accruals by discounting on negative and positive accruals, because of the flexibility of accruals. By having distinguished the future market value on equity and earnings, so the first hypothesis can be arranged systemically, as below:

H1a: *Discretionary accruals quality* has the influence positively on the *future market value based on equity*

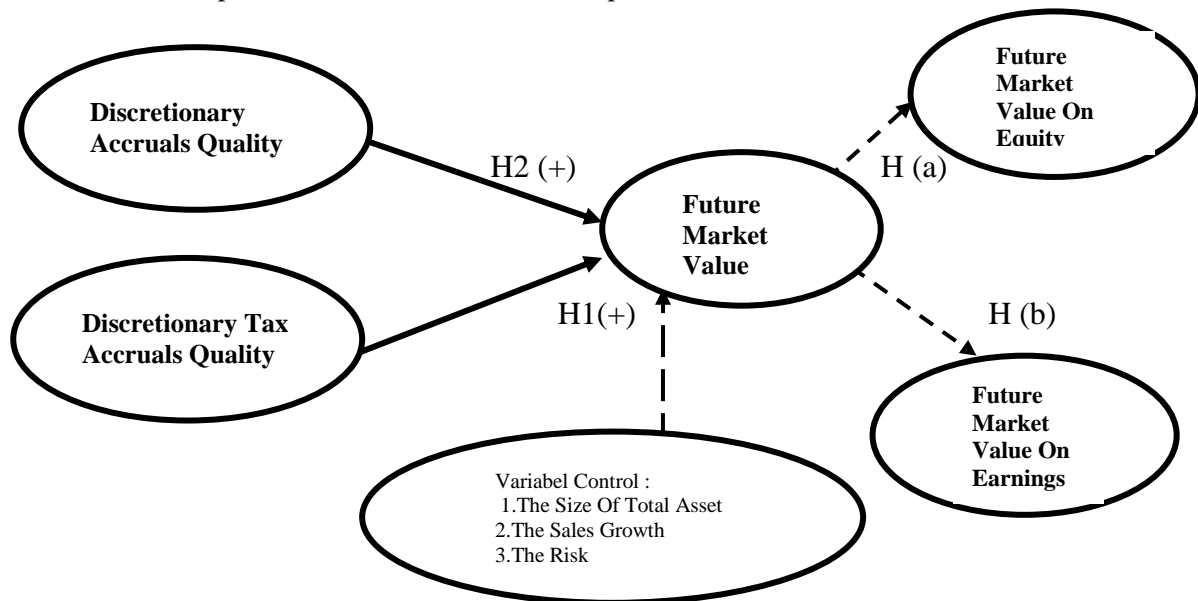
H1b: *Discretionary accruals quality* has an influence positively on the *future market value based on earnings*.

Practically, the management has an implicit willingness in deducting the taxable income as a "good achievement", it has a high probability of tax investigation, so the investor has a negative perception (Ryu & Chae, 2014). When the firm has suffered so much loss dramatically, in fact, the management has the willingness to do the higher tax payment for obtaining the maximum firm value (Hu et al., 2015). Finally, the investor had focused on high compliance on the tax regulation, when the disparity between book and market value was intolerance zone (Lee, 2016). As compliance with tax regulation, it has referred to Regulation Theory, where management should carry out the tax regulation as mandatory authority. The investor recognizes the gap between accounting standards and tax regulation, where the low tax accruals affect no volatile agency cost in the future. By modifying the total accruals (Báez-Díaz & Alam, 2012) and the accruals' impact on the following period, this empirical research tests that the impact of tax accruals quality on the future market value ominously used to explain how the compliance in carrying out the tax regulation in high-level influence the investor perception in future. The higher discretionary tax accruals quality, the higher compliance level, it means the investor has been aware of high tax accruals, they did not put an accent on negative and positive, it is dynamical tax management. By having distinguished the future market value on equity and earnings, so the second hypothesis can be arranged systemically, as below:

H2a: *Discretionary tax accruals quality* has an influence positively on the *future market value based on equity*.

H2b: *Discretionary tax accruals quality* has an influence positively on the *future market value based on earnings*.

The conceptual research framework can be provided, as follow :



Note: To adopt the title and objective of this research.

### Research Model

This qualitative research has the causal method by running the multiplied regression model with a data panel to explain a phenomenon in accounting and tax accruals. All secondary data was collected during the period 2015-2017, because of the estimating the accruals and standard deviation as primary testing statistically for the previous 5 years, so that this observation had been done from 2011-2018 with using ICMD (Indonesia Market Capital Directory), the Indonesia Stock Exchange and Yahoo Finance.

### Population and Data

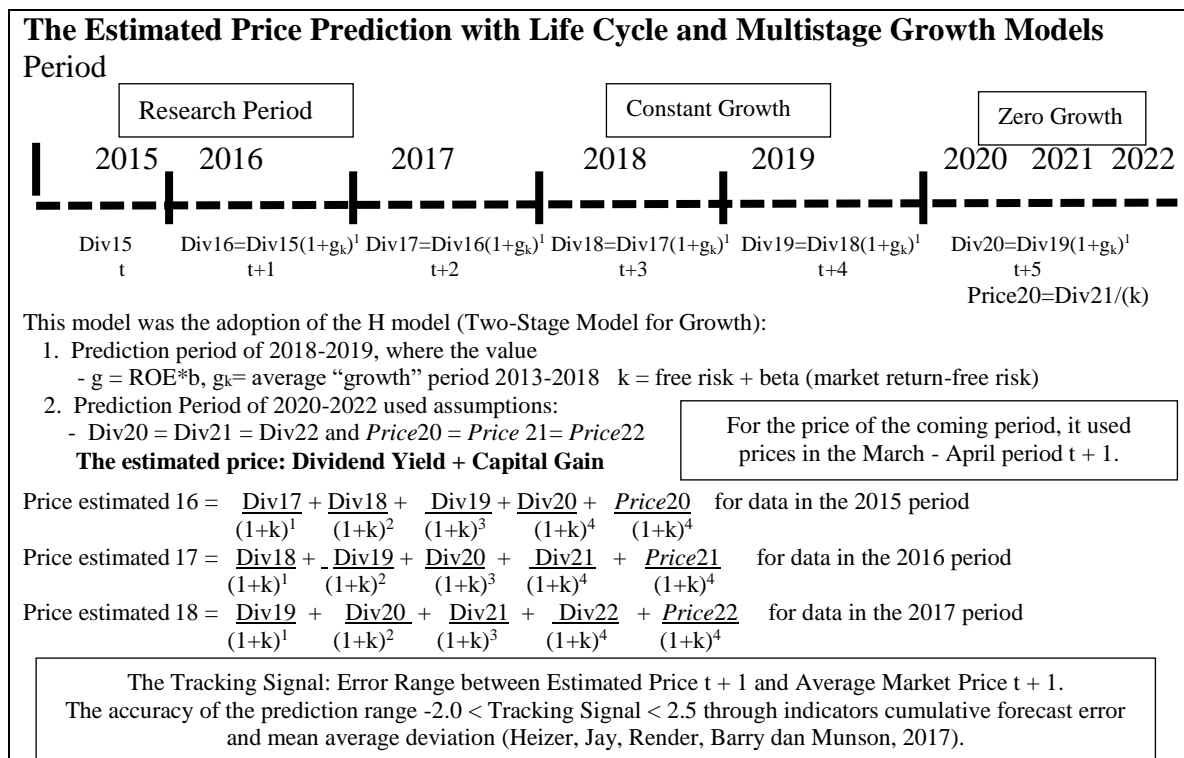
The population is the listed manufacturing company on the industrial sector, which enlisted at Indonesia Capital Market, because of the purposive sampling, so the criteria requirement can be arranged, as below (Sekaran & Bougie, 2016):

1. The company has e the dividend policy, based on (Nekhili, Fakhfakh, Amar, Chtioui, & Lakhali, 2016), this company has the higher-earning quality, compared with the company have never done this policy.
2. The company has a positive average growth during the observation period.

This empirical study had held in 154 companies by gathering about 384 observations, which have a positive dividend payout ratio. This special treatment had been done because some company has the dividend payout when the current earnings are negative

### Future Market Value

To calculate the estimated price, this research provides the schema as below :



**Figure 3. Stages of Estimated Market Price Calculation in the Period of 2015-2017.**

### Future Market Value-Based On Equity

Future market value based on equity is the development of the yield book instrument model (Homer, Leibowitz, Bova, & Kogelman, 2013) in calculating the market value of bonds. This new indicator for measurement for the prospect is based on equity. The ratio reflected on the higher this ratio when there was a positive fluctuation in the market price. The formula is arranged mathematically, as follows:

$$\text{Future market value based on equity} = \text{Equity per share } t / \text{Estimated price } t + 1 \dots \dots (a)$$

### Future Market Value-Based On Earnings

Future market value based on earnings is a novelty for measurement for the prospect based on earnings, which is the development of the calculation of earnings yield instruments, developed by (Wilcox, 2007) and modified by (Abraham, Harris, & Auerbach, 2017) through the adjusted earnings yield. The higher ratio, the higher the positive perception, so that the formula can be arranged mathematically, as follows:

$$\text{Future market value based on earnings} = \text{Earnings per share } t / \text{Estimated Price } t + 1 \dots (b)$$

### Independent Variables: *Discretionary Accruals Quality*.

The discretionary accruals are the subjective accruals that do has any violation of the accounting standard, measured by residual error value ( $\varepsilon_{j,t}$ ). As a measurement of quality, the discretionary accruals quality is to multiply this value ( $\varepsilon_{j,t}$ ) with -1 (Dempster & Oliver, 2019). To anticipate Kothari's model, this Dopuch et al, (2012) model has been the better model for the extreme data (Zarowin, 2015). The modified formula with numeric data in estimating total accruals can be arranged mathematically, as below :

$$Total\ Accruals_t = \beta_0 + \beta_1 A/R_{j,t} + \beta_2 A/P_{j,t} + \beta_3 INV_{j,t} + \beta_4 Profit\ Margin_{j,t} + \varepsilon_{j,t}. \text{ (c)}$$

Note :

1.  $TA_{j,t}$  = Total Accruals for firm j period t.
2.  $A/R_{j,t}$  = Account Receivables for firm j period t.
3.  $A/P_{j,t}$  = Account Payables for firm j period t.
4.  $INV_{j,t}$  = Inventory for firm j period t.
5.  $Profit\ Margin_{j,t}$  = Net Earnings for firm j period t

### Independent Variables: *Tax Management*

As a novelty in measuring the compliance on tax regulation, this research used discretionary tax accruals quality as a proxy of tax management. The discretionary tax accruals are the subjective tax accruals that do have any violation of the tax regulation, this is indicated by measured by residual error value ( $\varepsilon_{j,t}$ ). Because of tax management as a measurement of earnings quality, the discretionary tax accruals quality is to multiply the discretionary tax accruals with -1. The formula can be arranged mathematically, as below :

First: To Calculate *Tax Accruals* (Báez-Díaz & Alam, 2012)

$$Total\ Tax\ Accruals_{j,t} = Taxable\ Income_{j,t} - Cash\ Flow\ Operational\ (CFO)_{j,t} \dots \text{(d)}$$

Second: To Calculate *Discretionary Tax Accruals* with *Total Tax Accruals*

$$Total\ Tax\ Accruals\ (TTA)_{j,t} = (\text{absolute } \varepsilon_{j,t}) = \alpha_1 + \lambda_{11} (CFO)_{j,t} + \lambda_{12} (Tax\ Liability)_{j,t} + \lambda_{13} (Sales\ Growth)_{j,t} + \lambda_{14} (Adjusted\ Net\ Profit)_{j,t} + \varepsilon_{j,t} \dots \text{(e)}$$

Note :

1. Adjusted Net Profit = Net Earnings after Correction Fiskal for firm j period t.
2. Sales Growth = The Growth of Sales for the firm j period t.
3. Tax Liability = The Tax Liability for firm j period t.
4. CFO = The Cash Flow Operation for firm j period

This summary of measurement the variable can be presented in Table 1, as below :

**Table 1. The Measurement Of Operating Variable.**

Variable	Formula Pengukuran	Skala
Dependent Variable, by using an measurement indicator on Variabel	$The\ Estimated\ Price_t = \frac{Div_{t+1}}{(1+k)^{t+1}} + \frac{Div_{t+2}}{(1+k)^{t+2}} + \dots + \frac{Div_{t+5}}{(1+k)^{t+5}} + \frac{Price_{TV}}{(1+k)^{t+5}}$	
Future Market Value	$Future\ Market\ Value\ On\ Equity = Equity_t / The\ Estimated\ Price_{t+1}$ $Future\ Market\ Value\ On\ Earnings = Earnings_t / The\ Estimated\ Price_{t+1}$	Ratio
Discretionary Accruals Quality = (absolute $\epsilon_{j,t}$ ) X -1	Total Accruals (TAC) = $NI_{j,t} - CFO_{j,t}$ $TAC_t = \beta_0 + \beta_1 A/R_{j,t} + \beta_2 A/P_{j,t} + \beta_3 INV_{j,t} + \beta_4 Profit\ Margin_{j,t} + \epsilon_{j,t}$	Ratio
Tax Management by an measurement indicator	$Adjusted\ Net\ Profit_{j,t} = Commercial\ Net\ Income_{j,t} + Fiscal\ Correction_{j,t}$ $TTA_{j,t} = Adjusted\ Net\ Profit_{j,t} - Cash\ Flow\ Operational_{j,t}$	
Discretionary Tax Accruals Quality = (absolute $\epsilon_{j,t}$ ) X -1	$DTA\ Quality_{j,t} = e_{j,t} = TTA_{j,t} - (\alpha_1 + \lambda_{11} (Cash\ Flow\ Operations)_{j,t} + \lambda_{12} (Tax\ Liability)_{j,t} + \lambda_{13} (Sales\ Growth)_{j,t} + \lambda_{14} (Adjusted\ Net\ Profit)_{j,t})$	Ratio
First Control Variable with Size	Book Value = Value of Total Assets for the period Size = $\log$ (Natural Book Value)	Ratio
Second Control Variable with Sales Growth	Delta Sales = Sales period t - Sales period t-1 Sales Growth $_t = \Delta Sales / Sales_{(t)}$	Ratio
Third Control Variable with Risk (Debt to Equity Ratio)	Total Debt = Short-term Debt + Long-term Debt Then, the formula was developed Debt to Equity Ratio = Total Debt Value/Equity Value	Ratio

Source: The Researcher Data

### The Statistics Model.

By doing the statistical testing, the significant level had been treated as one tail form. In doing outlier testing, this testing had the treatment by the winzorize's model or reduction data with  $-1.5 > Z$  Score  $> 1.5$  (Gujarati, 2011), so that the valid observation was 204 data to level up the validity level of a regression model. By running the data panel testing with 2 (two) stages, this research provides the summary in Table 2, as below

**Table 2. The Summary Of Data Panel Testing**

The Phase-in Testing Data Panel	FMV on Equity First Model	FMV on Earnings Second Model
Chow Testing	$H_0$ Accepted Common Effect Model	$H_0$ Rejected Fixed Effect Model
Hausman Testing	Not Done	$H_0$ Rejected Fixed Effect Model
Lagrange Multiplier Testing	$H_0$ Rejected Random Effect Model	Not Done

Source: Secondary Data

Based on Table 2 pointed out the data panel for the first model is a random effect model and the second model is the fixed-effect model. Therefore, there does not need to fulfill an assumption classic testing model, because of the highly dispersed distribution data. A model regression has some Constanta, so this value has a meaningless indicator. Table 3 shows the coefficient of every regression model, as follows



**Table 3. The Regression Testing In This Model**

The Independent Variable	<i>Future Market Value on Equity</i>		<i>Future Market Value on Earnings</i>	
The Dependent Variable	Unstandardized Coefficient	Sig One Tail	Unstandardized Coefficient	Sig One Tail
1. Constanta	-0.041	0.115	-0.065	0.122
2. <i>Discretionary Accruals Quality</i>	0.058	0.034	0.086	0.026
3. <i>Discretionary Tax Accruals Quality</i>	0.045	0.029	0.072	0.031
The Control Variable				
4. <i>Log Total Asset</i>	0.067	0.037	0.089	0.011
5. <i>Growth Sales</i>	0.071	0.023	0.052	0.026
6. <i>Risk</i>	-0.156	0.011	-0.248	0.011
F Calculated	7.989		9.521	
<i>Significant</i>	0.000		0.000	
F Table	0.504		0.504	
<i>Adjusted R Square</i>	0.154		0.193	

Source: The Secondary Data The Error level is on 5 % (0.05) Sig One Tail: The sig in SPSS's output file divided by 2 (two).

Table 3 pointed out that F calculated > F Table, so it pointed out that the independent variables have the simultaneous on the dependent variable. The high sig level (< 0.05) describes this model can be stated as predictive modeling. By testing the relationship between accruals quality and return is relatively small (Lebert, 2019), because this regression model uses the residual error as data.

**Earnings Quality On The Future Market Value on Equity**

The First Regression Model :

$$\text{Future Market Value On Equity} = -0.041 + 0.058 \text{ DAQ} + 0.045 \text{ DTAQ} + 0.067 \text{ Asset} + 0.071 \text{ Growth} - 0.156 \text{ Risk} \dots \dots \dots (f)$$

Based on Table 3, this first model can be interpreted succinctly, as below :

1. The discretionary accruals quality has the Sig level 0.034 < (lower than) 0.05 (error level) and a coefficient of regression is positive 0.058, so that **hypothesis H1a accepted**. This pointed out that the discretionary accruals quality has influenced positively on the future market value based on equity.
2. The discretionary tax accruals quality has the Sig level 0.029 < (lower than) 0.05 (error level) and a coefficient of regression are positive 0.045, so that **hypothesis H1b accepted**. This pointed out that the discretionary tax accruals quality has influenced positively on the future market value based on equity.

**Tax Management on The Future Market Value on Earnings**

The Second Regression Model :

$$\text{Future Market Value On Earnings} = -0.065 + 0.086 \text{ DAQ} + 0.072 \text{ DTAQ} + 0.089 \text{ Asset} + 0.052 \text{ Growth} - 0.248 \text{ Risk} \dots \dots \dots (g)$$

Based on Table 3, this second model can be interpreted briefly, as below :

“The Influences of Accruals Quality and Tax Management on The Future Market Value: Case Study of The Listed Firm on Industry Manufacturing Sectors“

1. The discretionary accruals quality has the Sig level  $0.026 < (lower\ than)\ 0.05$  (error level) and a coefficient of regression is positive 0.086, so that **hypothesis H2a accepted**. This pointed out that the discretionary tax accruals quality has influenced positively on the future market value based on earnings.
2. The discretionary tax accruals quality has the Sig level  $0.031 < (lower\ than)\ 0.05$  (error level) and a coefficient of regression are positive 0.0726, so that **hypothesis H2b accepted**. This pointed out that the discretionary tax accruals quality has influenced positively on the future market value based on earnings.

### **Analysis and Discussion**

This statistical testing has pointed out the discretionary accruals quality has a positive contribution to the future market value (FMV), based on equity and earnings. To refer to changing the landscape of accruals, there is a momentous willingness to provide the actual earnings, this research supports (Bushman, Lerman, & Zhang, 2016) by indicating this one as an essential key to determine the expected return in the following period. This positive coefficient can be analyzed that the improvement of discretionary accruals quality influences the in predicting the prospect accurately when the financial reporting have no misleading information in sharing the actual and real performance in the current period. This result has supported (Pompili & Tutino, 2019) regarding the positive effect of the high accruals quality on obedience to the accounting standard at a high level. The high discretionary accruals quality paves the way for the investor in monitoring and checking the corporate policy, totally the accounting treatment policy. It has related entirely to the better prospect in the future, because of the low risk and actual performance reporting essentially. By obtaining the accurate accounting information, it levels up elementarily the investor's trust on financing the firm with the lower of cost of capital.

This discretionary tax accruals quality has a positive contribution to the future market value (FMV) based on equity and earnings, it indicates that the investor has a positive perception when the tax management has high compliance with the tax regulation. By minimizing the probability of tax investigation, directly it will deduct the agency cost in the following period. This has supported (Hu et al., 2015) regarding the investor's attention on the high level of obedience, explicitly this report gives an actual illustration of the current performance. The tax saving brings the investor into negative perception because of any critical infringement on tax regulation, so this "good achievement" for management could not be supported, because of the tax exposure potentially in the future.

The testing on equity and earning have the same result so that this empirical supported Hu et al, (2015) and Lee, (2016) which the practical effects are, like below :

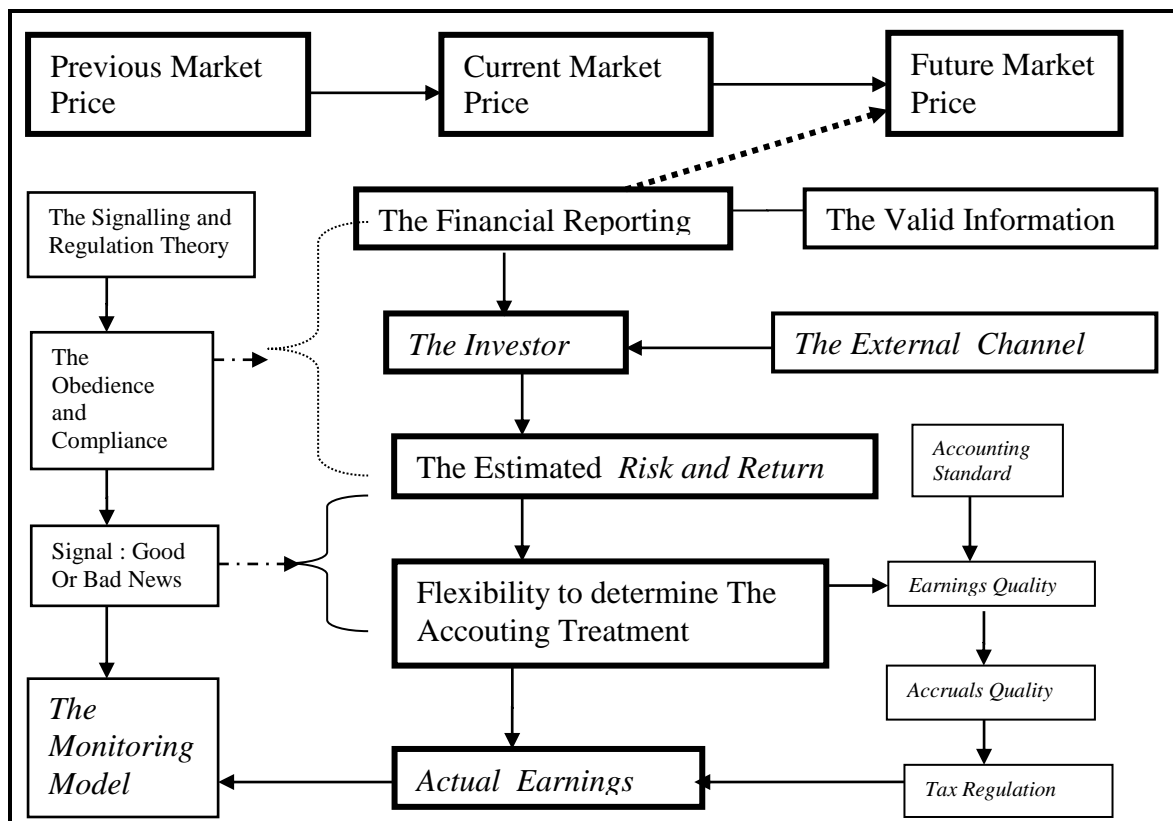
1. The investor takes care of a high level of consistency in implementing the accumulation method, particularly in recording the net fixed asset value.

2. The investor can recognize a tolerance level between net fixed asset value, based on the tax regulation and accounting standard, including the taxable and commercial income. When the gap is immaterial, the investor takes a high trust in management for reaching out to the better prospect in the following period.

By referring to the concept of decision usefulness information, this test provided the relationship between current and previous research, the gist can be detailed, as it follows:

- 1) (Bushman et al., 2016) by emphasizing a changing pattern of accruals, this aimed to minimize the negative perception, so this testing has inserted some new variables to maintain the high validity. As a trigger point, there is a main demand of investors to obtain extensively the high-quality accounting information from management without no tolerance for misleading information. The research shows that high accruals quality has been a signal to predict better prospects in the future.
- 2) (Pompili & Tutino, 2019) by underlining that the investor has reacted to accruals reasonably and encouraged management to improve earnings quality constantly, including the consistency in designing the accounting treatment. They look over the disparity of book and market value, which is in the acceptance limit, there is no negative perception, because of low or none discretionary accruals.
- 3) (Lebert, 2019) by accentuating the high-quality earnings as a signal for the low risk, because of actual earnings. Then investors can monitor the accounting record methods and decision making, so it should push on management level up the high accounting information quality.

Based on the statistical analysis, this research provides the mapping of accruals quality and prospect, that could be seen in Figure 4 as follows:



Source: Researcher Data

**Figure 4. The Impact of Decision Usefulness Accounting Information**

Figure 4 shows how the accounting information as valid information does play a critical role to influence the movement of the market price in anticipating the abnormal return, It reflects on the concept of decision usefulness information, this signal is the company has a low risk. Indirectly, the management obtains the lower cost of capital as a good hint for better performance in the following period. High-quality reporting can be used as a brief parameter to determine the required return in the future precisely, where there is no misleading information or distortion in the financial statements. The investor has the external channel for checking and monitoring all strategic decisions, so it is a push on management to take a discreet decision taking. By mulling the overall signal, the investor could pick up a suitable monitoring model for keeping on the high sustainability rate and going concern in the long.

## Conclusion

The conclusion can be presented, as follow :

1. The discretionary accruals quality does influence the future market value based on equity and earnings positively and significantly. The high discretionary accruals are an indicator of a high consistency level in implementing the accounting standard, so all decision making should have been more prudent and transparent. The positive investor's perception can be formed by obedience to accounting standards at a high level consistently, including none of the misleading information.

“The Influences of Accruals Quality and Tax Management on The Future Market Value: Case Study of The Listed Firm on Industry Manufacturing Sectors“

2. The discretionary tax accruals quality does influence the future market value based equity and earnings positively and significantly. Being aware of high tax accruals, so that tax-saving has been a misleading indicator for the investor, because of any infringement and pseudo net asset value. This testing on the high discretionary tax accruals quality is to point out the high compliance on tax regulation had a main aspect in deducting the agency cost, including the low probability of tax investigation.

### **Practical Implication**

The practical implication can be presented, as follow :

1. This research gives feedback to the regulator in the capital market to push on management to release out high-quality accounting information with a punishing and incentive model. This should maintain the investor's trust and protect this investment with high-quality accounting information. When financial reporting has been judged on the high level of accruals, it needs a legal approach for the management.
2. This testing gives feedback to all regulators in the Tax Department for minimizing the gap between accounting standards and tax regulation and releasing out an attractive incentive for high compliance. The investor does not put an accent on small deviation, because of high discretionary tax accruals quality. By realizing the gap as a chance for opportunistic accruals, so it must be one platform with the regulator for accounting standard association, particularly the hedging portfolio and unrealized gain.

### **Research Limitations**

Some limitations in this research can be arranged as follows:

- 1) This test assumes the constant and zero growth rate ( $g$ ) for the estimated price market in the period 2020-2022. This model does not reveal the annually actual growth for every observation, because of a simple estimation of using the tracking signal.
- 2) Because of high dispersed data in estimating discretionary accruals quality, the model can not run all classic assumption testing. This test reflected a very high level of variation in the use of accruals so that many data had been rejected by using the outlier testing, where 180 data has been trimmed from a total observation 384.

### **Recommendation for Future Research.**

Some recommendations for future research can be formulated as follows:

1. In measuring earnings quality and tax management for future research, researchers suggest using the different approaches with probabilities, especially comprehensive modeling with combining the primary and secondary data. Future research could use nonlinear regression models.

2. In measuring the risk levels, researchers are aware of several limitations of beta instruments. In future research, a more comprehensive calculation of risk level can be used to estimate the company's existence in the long run.

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