Analysis the Effect of Profitability, Liquidity and Solvability on the Completeness Financial Statement Disclosures (Case Study of Blue Chip Companies Registered in Indonesia Stock Exchange)

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ARTICLE INFO

ABSTRACT

Disclosure of information in financial reports is a form of company management accountability in facing dynamic business conditions. Financial reports are used as material for evaluation and consideration for stakeholders, so they must be presented in full with the hope of providing accurate information. A financial report is said to be complete if full disclosure or important information has been included in the financial report. Therefore, every company has an obligation to make improvements to financial reports so that the information submitted is right on target and accurate, including Blue Chip companies. The Blue Chip Company is a company that has a national reputation, in terms of quality, ability and reliability to operate profitably in various economic situations. Many factors affect the level of completeness of financial statement disclosure, such as profitability, liquidity, and solvency. This study aims to determine the effect of the level of profitability, liquidity and solvency on the completeness of disclosure of Blue Chip company financial statements in Indonesia. In this study, the level of profitability, liquidity and solvency had no effect on the completeness of financial statement disclosures. Research conducted using quantitative methods with a descriptive approach.

1. INTRODUCTION

The development of the social and economic environment that often occurs results in many changes to the business environment, especially regarding financial transparency. Companies are challenged to disclose their company information as a form of corporate responsibility to investors which is useful for facilitating resource allocation decisions to the most productive businesses (Wulandari and Laksito 2015). Companies can provide information about the condition of the company through annual reports which are also contained in financial statements in accordance with financial reporting standards.

Financial reports can be used as a benchmark for the company to evaluate and consider material for users of financial statements in making decisions. In addition, financial reports describe the performance and predictions of the company. Therefore, the presentation of financial statements must be complete in the hope that it can provide accurate information for various users of financial statements. Financial statements are said to be complete if the disclosure or presentation is complete, there is nothing hidden, not disguised or not conveying information on material fact. Disclosure of information in financial reports can be divided into two, namely mandatory disclosure and voluntary disclosure (Pratiwi 2015). Mandatory

disclosure is a disclosure of information prepared by a company regarding the company's actual activities and conditions, which is mandatory and is regulated in the applicable accounting standards. Meanwhile, voluntary disclosure is the disclosure of additional information made by a company without any obligation set forth in predetermined regulations.

Many factors influence companies in disclosing information in financial statements, such as profitability ratios, liquidity, solvency and so on. The profitability ratio is the company's ability to benefit from all the capabilities and resources the company has (Santioso and Yenny 2012). The profitability ratio provides a measure of the level of management's effectiveness in generating profits from sales and investment income. Previous research stated that the higher the profitability, the company management would reveal more information on financial reports to show the company's performance. The second factor is the liquidity ratio, which is the company's ability to meet its short-term obligations to creditors (Tumewu 2013). The contribution of the level of liquidity to the completeness of disclosure of financial statements is that the higher the level of liquidity, the better the financial condition so that companies tend to be more willing to disclose more information through financial reports. The third factor is the solvency ratio, which is an indication of the company's ability to meet its long-term obligations. The higher the solvency ratio, the company has more obligation to provide information to investors or creditors.

Therefore, every company is required to disclose complete information in the financial statements so that it can be used as evaluation material even though the company already has a good image among the public such as the BlueChip Company. The Blue Chip Company is a company that has a good reputation in the wider community both in terms of quality and ability and reliability to operate profitably in various economic situations. Blue Chip Company are required to always provide relevant and accurate information in order to gain the trust of the public. This study aims to determine the effect of profitability, liquidity and solvency ratio factors on the completeness of information disclosure in the financial statements of Blue Chip Company, especially ten companies listed on the Indonesia Stock Exchange.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

a. Signalling Theory

Signaling Theory describes how a company gives influence or signals to users of financial statements. Signals in the form of promotions or other information stating that the company is better than other companies. Signal theory explains that the urge of companies to provide information is because there is information asymmetry between company managers and parties (Agustina 2009).

b. Financial Statement Disclosures

Disclosure of financial statements is conveying information in financial reports and other additional information (Neliana 2017). Completeness of disclosure of financial information in financial statements can be measured using a disclosure index. This index is information that describes the condition of the company by showing the quality of information on the company's financial performance and cash flow.

The disclosure index formula, namely:

$$ID = \frac{n}{k} \times 100\%$$

The information disclosed can be financial or non-financial. So that reporting can be interpreted accurately, easily understood, and does not mislead users of financial statements. Therefore, the financial statements must be prepared in accordance with applicable standards.

c. Profitability

Profitability is the company's ability to generate profits at the level of assets, sales and share capital (Ariyanti and Suwarno 2015). There are several ways to measure the level of profitability in a company, one of which is ROA (Return on Asset). Return on assets will generate information to investors about the amount of profit generated by a company for every 1 rupiah from the assets used. The formula for ROA is

$$ROA = \frac{Net\ income}{Total\ assets}$$

The assumption used is that the higher the profitability ratio, the higher the company's ability to get profits and have a positive impact on company performance. The influence and relationship between the level of profitability and the completeness of disclosure of financial statements can use

ROA (Return on Asset) as a research tool. The higher the profitability ratio, the company management will reveal more information on financial reports to show the performance of the company. For that the hypothesis formulation is as follows:

H1: Profitability affects the completeness of financial statement disclosure.

d. Liquidity

Liquidity is the company's ability to meet its short-term obligations, especially for creditors. The higher the liquidity ratio, the guarantee of protection to creditors in the event of failure and the confidence that short-term obligations will be paid off. In this research, liquidity is measured using the current ratio (CR). The current ratio formula, namely

$$CR = \frac{\text{Current assets}}{\text{Good debt}}$$

There are two views on the level of liquidity. First, a high level of liquidity will indicate the strength of the company's financial condition and tends to disclose wider information to users of financial statements because it wants to show that the company is credible. However, another view states that the level of liquidity can be viewed as a measure of management performance in managing company finances so that low liquidity will indicate that the company will disclose more information to users of financial statements in an attempt to explain the weak performance of management. To determine the relationship and effect of liquidity on the completeness of disclosure of financial statements, the current ratio is used as an analysis tool. With the assumption that the higher the level of liquidity, the healthier the condition of a company can be reflected in the current ratio which is expected to be related to the extent of the level of disclosure. Based on the results of this, the following hypothesis is proposed:

H2: Liquidity affects the completeness of financial statement disclosures.

e. Solvency

Solvency is the company's ability to pay its long-term obligations. The measurement of this ratio can be calculated from long-term items such as fixed assets and long-term debt (Harahap, 2013: 303-304), one of which is the Debt to Equity Ratio (DER). As for the formula

$$DER = \frac{\text{Total assets}}{\text{Total debt}}$$

The assumption used is that the higher the solvency, the company has more obligations to meet the needs of adequate information for investors and creditors. To determine the relationship and influence of solvency on the completeness of financial statement disclosures, the following hypothesis is formulated.

H3: Solvency affects the completeness of financial statement disclosures.

f. Previous Research

The research conducted by Tri Neliana entitled Factors Affecting the Completeness Level of Financial Statement Disclosure with the variables of Level of Completeness, Liquidity, Profitability, Solvency, and Company Size. Which results in a statement that liquidity has no effect on the completeness of disclosure of financial statements, profitability has no effect on completeness of disclosure of financial statements, solvency has no effect on completeness of disclosure of financial statements.

Then the research conducted by James Tumewu Bambang Muliono with the title Factors Affecting the Completeness of Financial Report Disclosure in the Food and Beverage Industry Sector. The variables used are disclosure, leverage, liquidity, profitability, share of public shares and company age which results in information that all independent variables (leverage, liquidity, profitability, share of public shares and company age have a simultaneous effect on the index of financial statement disclosure.

Figure 1. Schematic of the framework
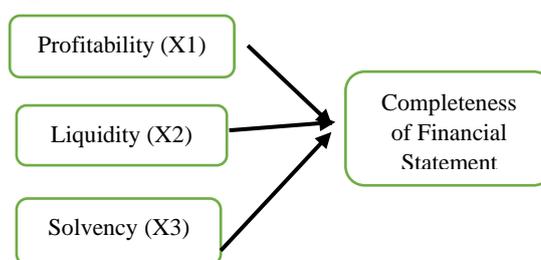
3. RESEARCH METHOD

a. Types of research

This research is a research with a quantitative approach with descriptive analysis method. Quantitative research methods are research methods that provide information on the fundamental relationship between observations and mathematical results from quantitative relationships. While descriptive analysis is analysis to describe the object of research through data and samples collected without analyzing and making general conclusions.

b. Object of research

The object of research is an attribute or object that has certain variations determined by the researcher for study and then draws conclusions. The object of this research is the financial statements of the Blue Chip companies listed on the Indonesia Stock Exchange.

c. Type of data

The type of data used in this study is subject data in the form of financial information listed in the company's financial statements. Where the data subject of this study is the type of research data in the form of financial statement data, especially Blue Chip companies listed on the Indonesia Stock Exchange.

d. Data source

The data used are secondary data or data indirectly obtained by data collectors. Secondary data in this study were obtained using the library research method and accessing the website of the Indonesia Stock Exchange and the Blue Chip companies as well as other websites. Secondary data in this study is in the form of company financial information data listed in the financial statements.

e. Population and sample

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics to study and draw conclusions from. The population in this study is the Blue Chip financial statements listed on the Indonesia Stock Exchange.

The sample is part of the number and characteristics of the population. Sampling in this study by looking at the strata ranging from one to 10 in the study population. The sample taken in this study is the financial statements of the year 2019 from Blue Chip's top ten companies.

f. Method of collecting data

The data collection method in this research is by conducting a literature review of various scientific literature, magazines, theses, and books. Literature study is a data collection technique regarding literature review with references relevant to the research being carried out.

g. Definition and measurement of variables

The variables used in this study are as follows:

1. Dependent Variable
Completeness of Financial Statement Disclosures (Y)

Completeness of disclosure of financial statements is how much information is presented in the financial statements by the company. This variable is measured by several indicators which are a requirement for good financial statements. There are several requirements that must be met in order for the financial statements to be full disclosure.

Explanation of accounting methods and policies
1. Additional information regarding investment
2. Changes in accounting policy
3. Transactions originating from other parties
4. Assets or liabilities that are contingent and contain certain commitments
5. Non-operational financial transactions occur after the balance sheet date and have a material effect on the company's financial position.

The calculation of the dependent variable uses the Wallace index by providing additional figures for each material item disclosure. The more information disclosed, the higher the index score and it can be indicated that the company has disclosed complete information than other companies. The numbers used are a maximum of one and a minimum of zero. When the company includes an information item, it is given the number one, but when the company does not disclose the information item it is assigned a zero.

2. **Independent Variable**

   Profitability (X1)

   Profitability ratio is a ratio that describes the company's ability to earn profits related to sales, total assets and own capital. The higher this ratio, the better because it provides a greater rate of return to shareholders. The profitability ratio can be used as a reference by investors to assess management performance in managing a company (Andriyani and Mudjiyanti 2017). Measurement of this variable uses Return on Asset (ROA). ROA is one of the most widely used ratios because it is considered capable of showing the success of a company in generating profits and a measure of the level of effectiveness of company management (Lubis 2018).

   Liquidity (X2)

   The level of company liquidity is the company's ability to fulfill its short-term obligations. It can be said that companies with high liquidity mean that their financial conditions are also good so they tend to be more willing to disclose more information through their financial reports. Liquidity in this study is measured using the current ratio. Current ratio, namely comparing short-term liabilities with current assets.

   Solvency (X3)

   Solvency, which describes the company's ability to pay its long-term obligations. The solvency ratio is used to determine the use of own capital and borrowed capital in meeting the obligations of the company. So that management can take policies to balance the use of capital in the company. This variable is measured by the Debt to Equity Ratio (DER) which compares long-term liabilities to total assets.

Data processing methods

The data processing methods used in this research are:

a. **Normality test**

   Normally distributed data is data that has a normal curve that is symmetrical Normality test is used to test confounding or residual variables to have a normal distribution or not. This normality test can be done by looking at the Sig asymp value. Correlations are recorded if the value is> 0.05 then the data is normally distributed.

b. **Multicollinearity Test**

Multicollinearity is a condition which describes the absence of a linear correlation between two or more independent variables. With multicollinearity, the standard error for each independent variable cannot be known. Multicollinearity test is used to determine the effect of a combination of two or more independent variables. Multicollinearity can be seen from the tolerance value and the opposite of variance inflation factor (VIF). So the tolerance value ≤ 0.10 or the same as the VIF value ≥ 10, the data does not occur symptoms of multicollinearity.

c. **Autocorrelation Test**

   Autocorrelation is a condition that shows that the data has been correlated when the appearance of the data is influenced by previous data. A good regression model is a regression that is free from autocorrelation. The test method that is often used to have autocorrelation is the Durbin-Watson Test (DW Test) with the following conditions:

Table 2. Durbin Watson Test Conditions

Tabel 1. Ketentuan Uji DW *(Durbin Waston)*

Hipotesis nol	Keputusan	Jika
Tidak ada autokorelasi positif	Tolak	$0 < d < dl$
Tidak ada autokorelasi positif	No decision	$dl \leq d \leq du$
Tidak ada korelasi negative	Tolak	$4 - dl < d < 4$
Tidak ada autokorelasi negative	No decision	$4 - du \leq d \leq 4 - dl$
Tidak ada autokorelasi positif atau negative	Tidak ditolak	$du < d < 4 - du$

Sumber: Ghozali (2012:11)

d. **Heteroscedasticity Test**

   The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. If the variance from the residual to another observation remains, it is called homoscedasticity. A way to detect the presence or absence of a certain pattern on a scatterplot graph between the predicted values of the dependent variable and its residuals where the Y axis is the predicted Y, and the X axis is the residual (Y-predicted Y is true).

e. **Multiple Regression Analysis**

   Multiple regression is used to describe the relationship between several variables, so that a variable can be predicted from other variables. Multiple linear regression as a tool to prove the hypothesis formulated. The analysis tool is used to see whether there is an influence of several independent variables on

the dependent variable, either simultaneously (together) or partially (respectively).

f. Hypothesis test

The hypothesis is a temporary answer to the formulation of research problems, the formulation of research problems has been stated in the form of a question sentence. The hypothesis to be tested is to compare the value of P value with a significant value at a significant level (α = 0.05). The decision making criteria H0 is accepted if: significant value α> 5% H0 is rejected if: significant value α <5%.

4. RESULT AND DISCUSSION

a. Normality Test

The normality test is a test used to test normal data or not used in research, where a good regression model is indicated by data that is normally distributed. The measurement in this test uses a significant value in the table, when the table value is greater than 0.05 (5%), then the research data is normally distributed.

Table 3. Correlations

Correlations		Kelengkapan Pengungkapan Laporan Keuangan	Profitabilitas	Likuiditas	Solvabilitas
Pearson Correlation	Kelengkapan Pengungkapan Laporan Keuangan	1,000	,382	,696	,439
	Profitabilitas	,382	1,000	,087	,172
	Likuiditas	,696	,087	1,000	,786
	Solvabilitas	,439	,172	,786	1,000
Sig. (1-tailed)	Kelengkapan Pengungkapan Laporan Keuangan	.	,138	,013	,102
	Profitabilitas	,138	.	,405	,317
	Likuiditas	,013	,405	.	,003
	Solvabilitas	,102	,317	,003	.
N	Kelengkapan Pengungkapan Laporan Keuangan	10	10	10	10
	Profitabilitas	10	10	10	10
	Likuiditas	10	10	10	10
	Solvabilitas	10	10	10	10

Based on the data from the table, each research variable has a value above 0.05%. Therefore, the regression model has met the assumption of normality or the data used in this study are stated to be normally distributed.

b. Multicollinearity Test

Multicollinearity test was conducted to test and determine the strong relationship between dependent and independent. For the measurement of determining, namely using a value of tolerance greater than 0.1 or 10% and a VIF that is less than 10, it can be concluded that in the regression model there is no strong correlation between the independent variables.

Table 4. Collinearity Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitabilitas	,964	1,037
	Likuiditas	,379	2,636
	Solvabilitas	,371	2,695

Based on the data above, the tolerance value for the profitability variable is 0.964, the liquidity variable is 0.379 and the solvency variable is 0.371 which means that these values are greater than 0.1. While the VIF value of all the research variables this time is also less than 10. So, it can be concluded that this regression does not occur multicollinearity symptoms or there is no strong relationship between the independent variables.

c. Autocorrelation Test

The autocorrelation test was tested with the Durbin Watson value in the model summary table. With the value indicator when there are no autocorrelation symptoms, that is, if the Durbin Watson value is between du to 4-du. Or the Durbin Watson value is in the numbers -2 to 2 so it can be said that there is no autocorrelation.

Table 5. Model Summary

Model	Std. Error of the Estimate	Durbin-Watson
1	,05248	1,893

a.Predictors: (Constant), Solvency, Profitability, Liquidity

b.Dependent Variable: Completeness of Disclosures Financial statements

In the table above the value of the Durbin Watson is 1.893. Therefore, the current autocorrelation test can be said to pass the autocorrelation test.

d. Heteroscedasticity Test

The heteroscedasticity test is used to test the variance inequality from the residual value of one observation to another in the regression model. In this study, heteroscedasticity testing was carried out by looking at the scatterplot. Measurements were made, namely the presence of points on the scatterplot that spread above and below the number 0 on the Y axis, it can be concluded that the study did not occur heteroscedasticity symptoms.

Table 6. Scatterplot
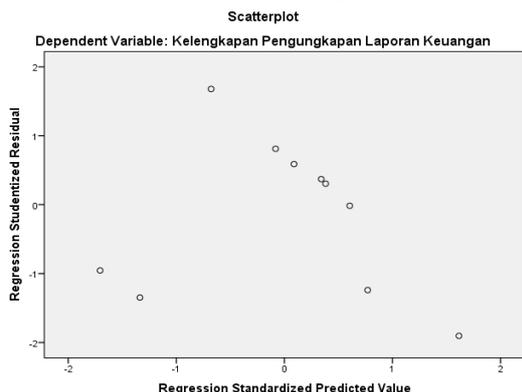
In this research, the points on the scatterplot spread above and below the number 0 on the Y axis, therefore the data above does not occur any symptom of heteroscedasticity.

e. Multiple Regression Analysis

Multiple regression analysis using the regression equation means that the model has met the classical assumption test. The indicators that must be fulfilled are that the research data used must be normally distributed, then the independent variables do not have a strong correlation or are free from multicollinearity symptoms, no heteroscedasticity symptoms, and free from autocorrelation symptoms. These indicators have been proven successful or meet the requirements so that the regression model in this study is good.

f. Hypothesis Test

In the F statistical test conducted to determine the overall influence of the variables, namely profitability, liquidity, and solvency on the completeness of financial statement disclosure. The results of the tests carried out are as follows:

Table 7. Anova

Mean Square	F	Sig.
,010	3,596	,085[b]

a.Dependent Variable: Completeness of Disclosures Financial statements
b.Predictors: (Constant), Solvency, Profitability, Liquidity

From the table above, the probability value of significance is 0.085. This value is greater than the value of 0.05 or 5%, thus it can be concluded that together the independent variables consisting of profitability, liquidity and solvency do not have a significant effect on the completeness of financial statement disclosure. While individual hypothesis testing is carried out using multiple analysis as follows:

Table 8. Coefficients

Model	Sig.
1 (Constant)	,000
Profitability	,194
Liquidity	,051
Solvability	,378

a. Dependent Variable: Completeness Financial Statement Disclosures

Based on the table above, the profitability variable has no effect on the completeness of financial statement disclosures. This is evidenced by the results of the regression test which show that the probability value of the significance of profitability is 0.194 which is greater than 0.05. Because the significance probability value is greater than 0.05, it can be concluded that H1 is rejected. The hypothesis states that profitability has no effect on the completeness of financial statement disclosures.

The second variable, namely liquidity, also has a significance probability value greater than 0.05, namely 0.51. With these results also represent that liquidity does not have a significant effect on the completeness of financial statement disclosures. Therefore H2 in this study was rejected.

The third variable is solvency, the test results show a significance probability figure greater than 0.05. The probability value of the significance of the solvency variable is 0.378 which indicates that the hypothesis (H3) which states that solvency affects the completeness of financial statement disclosure is rejected.

Table 9. Model Summary

Model	R	R Square	Adjusted R Square
1	,802[a]	,643	,464

a. Predictors: (Constant), Solvency, Profitability, Liquidity
b. Dependent Variable: Completeness Financial Statement Disclosures

The coefficient of determination shows the ability of the independent variable to explain the variation of the variation in the dependent variable. The ability of the independent variables consisting of profitability, liquidity, and solvency in explaining the variation of the dependent variable (completeness of financial statement disclosures) is 0.464 or 46.4%.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The results of research conducted on ten financial reports in 2019 from Blue Chip companies listed on the Indonesia Stock Exchange concluded that the level of profitability, liquidity, and solvency had no significant effect on the completeness of information disclosure in the financial statements made by company management.

Suggestions for further research are adding research variables, namely company size or expanding the level of profitability with other ratios such as profit margins, and Return On Equity (ROE). In addition, further research is also suggested to expand the population of research objects as a whole by adding samples for 50 Blue Chip companies listed on the Indonesian Stock Exchange.

The limitation in this study is the lack of research variables that only test the level of profitability, liquidity and solvency of the company, so that the information presented is only within the scope of these three factors. Even though other factors may also have an influence on the completeness of financial statement disclosures. Another limitation is the research sample, which only amounts to the top 10 Blue Chip companies, which can actually be more extensive in presenting information when using a large research sample.

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