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ANALYSIS FINANCIAL REPORTING QUALITY (CASE STUDY IN THE COVID-19 PANDEMIC PERIOD)

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ABSTRAK

Wabah pandemi COVID-19 telah mengubah seluruh aspek kehidupan manusia di seluruh dunia, termasuk sektor keuangan. Penelitian ini bertujuan untuk menguji perbandingan kualitas laporan keuangan sebelum dan selama periode pandemi COVID-19. Data yang digunakan untuk analisis berasal dari laporan keuangan perusahaan yang terdaftar di Bursa Efek Indonesia (BEI). Untuk kasus sebelum pandemi, data diperoleh dari tahun 2016-2019, sedangkan untuk kasus selama pandemi diperoleh dari tahun 2020 sejak penyebaran wabah. Analisis data menunjukkan hasil yang bervariasi pada beberapa model penelitian. Penurunan nilai aset dan ukuran perusahaan merupakan faktor yang berpengaruh negatif terhadap kualitas pelaporan keuangan selama pandemi. Namun, tingkat likuiditas, modifikasi kontrak, dan pertumbuhan perusahaan memiliki dampak positif terhadap kualitas pelaporan keuangan selama pandemi. Secara umum, kualitas pelaporan keuangan selama pandemi mengalami peningkatan dibandingkan sebelum pandemi COVID-19.

Kata kunci: kualitas pelaporan keuangan, going concern, likuiditas, penurunan nilai, modifikasi kontrak, dan nilai wajar

ABSTRACT

The COVID-19 pandemic outbreak has transformed every aspect of human life worldwide, including the financial sector. This study aims to examine the comparison of financial reporting quality before and during the COVID-19 pandemic period. The data for analysis were derived from the financial reports of the companies listed on the Indonesia Stock Exchange (IDX). For the case pre-pandemic, the data were obtained from 2016-2019 while those during the pandemic were in 2020 since the spread of the outbreak. The data analysis showed that the results varied on several research models. What is a going concern was assets impairment and firm size as the factors with a negative effect on the quality of financial reporting during the pandemic. However, the level of liquidity, contract modifications, and company growth had a positive impact on the quality of financial reporting during the pandemic. Generally, the financial reporting quality during the pandemic improved compared to that before the COVID-19 pandemic.

Keywords: financial reporting quality, going concern, liquidity, impairment, contract modification, and fair value

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INTRODUCTION

The COVID-19 outbreak has spread in Indonesia since March 2020, having a significant impact on the country's economic landscape (Indonesia, 2020). Cohen (2004) attested that economic condition would influence the financial reporting quality. Mitevaska et al. (2021) specifically affirmed that the COVID-19 pandemic affected the financial reports quality in two scenarios, i.e., issue of liquidity and the firms' business continuity. Furthermore, the report issued by International Financial Reporting Standard (IFRS, 2020) revealed that the COVID-19 pandemic affected the financial reporting quality in six issues, such as going concerns, liquidity, impairment assessment, contract modifications, and fair value (Van Der Tas, 2020).

The COVID-19 pandemic adversely affects the financial reporting quality in such a way that a company's sustainability is threatened due to the public's declining purchasing power in the long run. Ruiz-Barbadillo et al. (2004) suggested that doubt to a company's survival led to downgrade the quality of financial reporting. Furthermore, another declining aspect in financial reporting is the degree of liquidity due to a decrease in sales volume. The weakened level of a company's liquidity could be the worst impact on its operations and performance. In addition, asset impairment assessment is another declining factor in financial reporting quality. The impairment of asset companies has linear correlation with the period of pandemic COVID-19 (IFRB, 2020). Furthermore, the next impact on financial reporting is the modification of contract agreement. The agreement that has previously reached by the company with a third party is challenged due to the impact of pandemic COVID-19. Also, the pandemic affecting financial reporting is the evaluation of fair value as a mirror value asset on market. The fair value determination on an asset during the pandemic is impeded, especially value on an asset in closing date financial reporting because of uncertain condition.

This study aims to determine the impact of Covid-19 pandemic on financial reporting quality. The study used quantitative approach using comparison data between the period before COVID-19 (in 2015 – 2019) and during the pandemic occurred (in 2020). Later, the data were analyzed using multiple regression. Population and sample were the companies listed on the Indonesia Stock Exchange (IDX). Independent variables on the research model consisted of going concern, liquidity, impairment assessment, contract modifications, and fair value. On the other hand, the dependent variable was financial reporting quality.

The study results are expected to provide a positive contribution to complement the body of knowledge, especially for accounting science. In general, these results can be reference for investors, creditors, academics, the government, and other parties interested in the company's financial statements. The investors would be better informed regarding the structure of financial reports during pandemic COVID-19 for further decision making. In addition, creditors could increase their prudence in disbursing credit to the companies during the pandemic period based on the performance from the financial reports analysis. Academics could use the results of this research as a reference in the accounting science development. Meanwhile, the government can use the study results in determining taxation policies on corporate income. Other interested parties could refer to these results in decision-making processes.

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LITERATURE REVIEW

Investors will compare the return they expect from a company based on its performance. Thus, the financial report functions as one of internal information for measuring the company's performance and predicting the result in the future (Barniv et al., 2005). Financial reporting is deemed to have quality when all information needed by interested parties is available on the stock market (Miller & Bahnson, 2002). Fluctuation price share caused by the publication of a company's financial report reflects of the level of financial report quality itself (Rajgopal & Venkatachalam, 2011),(Sharma et al., 2012). As the investors are well informed based the company's financial report, they will make a particular decision at the market.

One method for analyzing the quality of financial reporting is using the stock market price at certain time that reflects a company's value (Erin et al., 2017), (F. Chen et al., 2011). The stock price will fluctuate following the information received by investors regarding the company's condition. Stock market price reflects the balance of power between buyers and sellers who must take into account various risks and gain from the stock and produce appropriateness of share price (Salehi et al., 2018).

Going concern

The COVID-19 pandemic has changed the condition of companies' economic condition. Studies conducted by Valentin (Valentin & Isa, 2011), and Pinnuck (Pinnuck, 2012) proved that the economic crisis affected the quality of financial reporting. The decrease in quality of a company's financial reporting is affected by the assumptions used in preparing financial reporting during crisis. In preparing financial reporting, it is mandatory for management to evaluate a company's ability for the business continuity. During the pandemic period, company's survival ability fluctuates. The assumptions used by the company to survive depends on the fluctuated impact of the pandemic its condition.

Degree materiality pandemic on financial reporting category high if change investor decision. Going concern companies require disclosure in financial reporting on pandemic conditions because of uncertainty in life in the future. Companies are mandatory to disclose assumptions in preparing finance reporting during the pandemic. The level of disclosure due to the impact of pandemic on financial reporting is adjusted to the company condition affected by the pandemic. The fundamental assumption of preparing financial report is business continuity of the company in the future. The threatened life business of the company in the future will produce bias of financial reporting (Cohen, 2004).

Level of liquidity

During the pandemic, company's liquidity is volatile with the majority has declining trend. Most of the companies' income are declining due to the impact of the pandemic. However, trend of production cost and operations are relatively lower compared to the declining income. The company is striving to maintain level of liquidity with cutting off the expenditure especially fixed expenditure, such as wages for employees, utilities usage and some variable expenditures. The declining level of liquidity in the long run will impact the quality of financial reporting

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(Sutthachai & Cooke, 2009), (Bardos, 2011). Management must inform shareholders and the interested parties about its current liquidity condition, or they have to predict it in the future during the pandemic. It is mandatory for the company to explain the assumptions used in liquidity reporting in the financial report, especially during pandemic (Van Der Tas, 2020).

Asset impairment assessment

The decline in asset value as the impact of the pandemic can be analyzed from the decline in the company's sales volume. The decrease in sales volume will reduce the production capacity or the shutdown of several business lines. Idle equipment and supplies or not in use in the production process will cause a decrease in usability and ultimately reduce the value of the equipment or supplies.

Impairment of assets is required to be disclosed in the financial statements (HUIAN, 2013). The measurement of the present value of the company's assets is directed at the net realizable value. The difference between book value and fair value/net realizable value is recorded as a gain or loss in the financial statements. Impairment of assets occurs when the company is unable to recover its book value with the utilizing or selling the asset. Its means carrying amount above on using or selling amount (Van Der Tas, 2020). Assumptions of assets impairment are clearly disclosed in the financial statements to maintain the quality of financial statements (Paugam & Ramond, 2015).

Modification of contractual agreement (contract modifications)

The COVID-19 pandemic has been assumed to lead some of the company's contractual agreements with third parties to shift significantly (Van Der Tas, 2020) and the estimated cash flow from the agreement has changed. Declining purchasing power, depressed liquidity levels, declining sales, increased operational costs, threatened business continuity, and the loss of several business opportunities force the company to consider modifying its contractual agreements with other third parties.

Companies need to make changes (modifications) to contractual agreements, especially those causing pressure on cash flow conditions and operational continuity (Mala & Chand, 2012). The contractual agreements with creditors and customers are modified with adjustment to the latest company conditions (Shivakumar, 2013).

Fair value

Determination of fair value is necessary for financial reporting as the representation of the existence of an asset, liability, income, and expenses (Menicucci, 2020). The financial statements will be overstated if the carrying value (historical cost) is lower than the market value or vice versa. These differences need to be disclosed in the financial statements and adjusted in the accounts. Stakeholders would not make proper decisions if the amount presented in the financial statements does not reflect the value of related pandemic conditions (Baek et al., 2020).

The company that makes valuation and judgments about measuring fair value must consider current conditions and assumptions (Watts & Zuo, 2016). The impact of the fair value measurement will depend on the evaluation of the pandemic severity on the financial reporting date. Disclosure of any condition during a pandemic is necessary for financial reporting. The

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users of financial reporting can understand that the financial statements have been prepared to consider pandemic impact. The company also discloses the assumptions used in using the fair value to provide the basis for further decisions for stakeholders (Zeff et al., 2014).

State of the art

Little attention has still been taken to this research topic or this research topic is different from previous research since this study is a comparative study of the quality of financial reports before (in 2015 – 2019) and during the COVID-19 pandemic (in 2020). Research is relatively new during a pandemic. The research variables consist of going concern, liquidity, assets impairment assessment, contract modifications, and fair value in measuring the quality of financial reports (Van Der Tas, 2020). In addition, to the authors' best knowledge, this study results have a high level of originality. The research model could be depicted as follows:

The effect of going concern on the quality of financial reporting

The company's going concern is related to the quality of financial reports (Menon & Schwartz, 1987). The market will react to the company's going concern reports, especially the condition of its financial pressures (Blay et al., 2011). Krasnov (Krasnov & Kozmenkova, 2017) stated that financial statements must reflect the actual conditions at that time. Financial statements are deemed to be of high quality if there are no significant problems with the company's going concern (Peel, 1989). Doubts about the company's going concern in the future will have an impact on the accounts in the financial statements, especially assets and liabilities. The value of the company's assets and liabilities becomes uncertain in conditions of threatened survival. It is possible that there will be a significant decrease in the value of assets in the financial statements. Likewise, the value of the company's obligations will also be the subject of significant adjustment if creditors or investors cut off the company's obligations if it pays off soon.

The problem of a company's survival can also be affected by several aspects, such as the company's weakness in internal control system since it influences the quality of financial reports. Jiang (Jiang et al., 2010) revealed that the weakness of internal control would decrease the quality of financial reports that ultimately has an impact on the issue of the company's business continuity. During the pandemic condition, the company's survival is threatened. The carrying amount in the financial statement accounts will be adjusted to the threat to the company's going concern. Based on the description above, the first research hypothesis is formulated as follows:

Hypothesis 1 (H1): Going concern influences the quality of financial reporting.

The effect of liquidity on the quality of financial reporting

A company's liquidity can affect the quality of financial reports (Hamidzadeh & Zeinali, 2015). Research conducted by Kosmidou et al. (Kosmidou et al., 2020) found that there was a unidirectional relationship between the level of liquidity and the quality of financial reports, especially for companies with a high-risk level. It means that the higher the level of company risk, the higher the influence of the level of liquidity on the quality of financial statements. Furthermore, (Mitevaska et al., 2021) stated that companies were obliged to disclose their liquidity conditions during the pandemic to stakeholders to reduce risk.

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The company's liquidity level needs to be maintained during the pandemic so that it doesn't shift too much from commitments with third parties and its financial plans. Al Masud (Masud, 2022) stated that the level of corporate liquidity maintained with the level of leverage affects the quality of financial reports. The decreasing level of company liquidity will cause a decrease in the quality of financial statements. Based on the arguments above, the second research hypothesis can be arranged as follows:

Hypothesis 2 (H2): Liquidity affects the quality of financial reporting.

The effect of asset impairment assessment on the quality of financial reporting

Determination of asset impairment will affect the quality of financial statements. Okwuosa (Okwuosa, 2021) attested that the determination of impairment affected the condition of the financial statements. He further stated that the decline in asset value could be measured from the fair value of the asset subtracted by the value of the asset sale. If the value of the asset is higher than the carrying amount in the financial statements, there will be an impairment loss recorded in the financial statements. Problems arise when companies have different types of assets and different characteristics, which means that the more varied the value and type of company assets, the higher the influence on the quality of financial statements.

In addition, Hołda (Hołda & Staszal, 2020) affirmed that there was a significant relationship between the decline in the value of fixed assets and the quality of financial reports, especially in companies that have poor financial performance. The companies with poor financial performance are more likely to take advantage of the condition of asset decline losses. There are several companies that do not apply the asset reduction rules regulated in the standard, thus, the assets reported are overstated and affect the level of accuracy of financial statements (Al-Abbas et al., 2020). Act of reporting a decrease in asset valuation is also related to the level of law enforcement in a country. Countries with weak law enforcement encourage the acts of reporting the impairment in financial statements compared to those with high law enforcement (Karampinis, 2021). Based on the elaboration above, the third research hypothesis is expressed as follows:

Hypothesis 3 (H3): Impairment assessment affects the quality of financial reporting

The effect of contractual modification on the quality of financial reporting

Bens (Bens et al., 2020) revealed that contractual modification will increase the conservativeness of the financial statements. In other words, the modification of the contract value will be closer to the actual value of a company's current ability, which is reflected in the financial statements, especially in the modification of the contract value of debt. Modification of debt contracts during the pandemic is closer to the company's current capabilities. Companies with declining turnover and high debt values in the pandemic situation will lead to problems in their liquidity. Therefore, a modification of the company's contract value, especially debt agreements, is required for adjustment according to its ability to deal with the pandemic conditions.

Modification of the contract value will lead to reliable financial statements. Lisovskaya (Lisovskaya, I. A. Trapeznikova, 2020) proved that the modification of the recognition of the

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lease contract by adopting the latest standard IFRS 16 (PSAK 73) would affect the lessee's financial statements. During the Covid-19 pandemic, the modification of the recognition of the lease contract had some implications for financial statements. Kobbi (2021) found that the modification of customer revenue recognition in the financial statements as regulated in IFRS 15 (PSAK 72) will have an impact on revenue recognition in the financial statements compared to the previous period, especially during the pandemic. Based on the explanation above, it can be concluded that the fourth research hypothesis is developed as follows:

Hypothesis 4 (H4): Contractual modifications affect the quality of financial reporting.

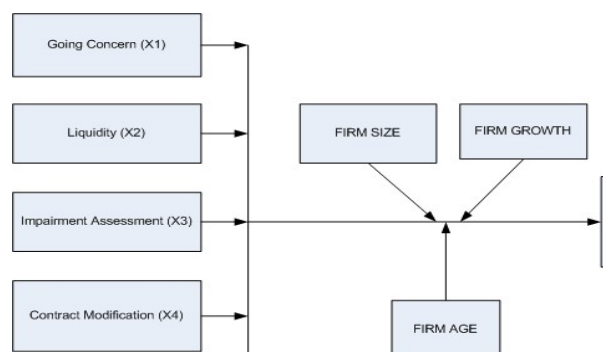
The fair value on the quality of financial reporting

Measurement of asset value using fair value has an impact on the quality of financial statements. Ramli et al. (Ramli et al., 2021) revealed that the relevance of measurement tools was the main aspect in assets measurement based on their fair value. Inappropriate fair value measurement tools will cause the value of financial statements to be biased. Chen (X. Chen et al., 2020) stated that the use of fair value in measuring asset value would cause a false profit, thus, affecting the company's dividend policy. A false gain from the revaluation of asset values will lead to an overvaluation of the financial statements.

Sangchan et al. (Sangchan et al., 2021) argued that the use of fair value on the value of property investment has a positive impact on the investors' investment value. The investment value is assessed at the present value in the financial statements. Georgiou (Georgiou et al., 2021) argued that fair value assessment was irrelevant if no decisions were made. Therefore, it is possible that the use of fair value in financial statements will be more meaningful if a further decision is made from the interested parties on the financial statements.

It is difficult to use fair value to measure assets and liabilities at market prices. This difficulty occurs because the market equilibrium cannot be reached only once but will occur many times according to market conditions at that time (Alharasis et al., 2021). Therefore, caution is required in the use of fair value in financial reporting. Then, Oyewo (Oyewo et al., 2020) stated that the use of fair value in accounting estimates would affect the quality of financial statements. Based on the elucidation above, it can be concluded that the fifth research hypothesis is as follows:

Hypothesis 5 (H5): Fair value assessment affects the quality of financial reporting.



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Fig. 1 Research model

Research methods

This study is classified as applied research designed based on phenomena, literature review, and the results of previous empirical research. The research data were derived from secondary sources based on the annual report obtained from the Indonesia Stock Exchange (IDX) and the companies' official website from 2016 – 2020.

Meanwhile, the data collection of the study was conducted for six months from 2016 – 2019 (before COVID) for the first model. Later, the data from 2020 during the pandemic period was assigned as the second model. The research variables and indicators used in this study are described as follows:

Table 1 Operationalization of variables

Variable	Indicator
Quality of financial reporting (dependent variable)	$TACCit = {}_1(1/ TA_{it-1}) + {}_2(\Delta REV_{it} - REC_{it}) + {}_3 PPE_{it} + it_{-}$ $NDACC_{it} = {}_1(1/ A_{it-1}) + {}_2(REV_{it} - REC_{it}) + {}_3 PPE_{it} + it_{-}$ $DACCit = TACCit - NDACCit$ (Earning Management)
Going concern	Natural log of sales
Liquidity	Current ratio = <u>current asset (CA)</u> Current liabilities (CL)
Asset impairment assessment	Impairment = $\frac{\text{Stock market price} - \text{stock price}_{T-1}}{\text{Stock Price}_{T-1}}$
Fair value	Natural log EBITDA (earnings before interest, taxes, depreciation, and amortization)
Contract modifications	Modification of contractual agreement = short term debt/ long term debt
Controls variable:	Asset log
- Firm size - Growth - Firm age	$\text{Growth} = \frac{\Delta(\text{TotalSales})}{\text{TotalSales}}$ Count start IPO date to date report annual

The method of data analysis was multiple regression analysis with the aid of the E-Views software. Prior to the regression analysis, the panel data model was evaluated. The analysis results were then interpreted and concluded. The next phase was the final solution to the study problem. The study hypotheses were tested using the following regression model:

$$FRQ_1 = + {}_1 GC + {}_2 Liq + {}_3 IA + {}_4 CM + {}_5 FV + E \dots \text{ (Model 1)}$$

$$FRQ_2 = + {}_1 GC + {}_2 Liq + {}_3 IA + {}_4 CM + {}_5 FV + {}_7 \text{Size} + E \dots \text{ (Model 2)}$$

$$FRQ^3 = + {}_1 GC + {}_2 Liq + {}_3 IA + {}_4 CM + {}_5 FV + {}_8 \text{Growth} + E \dots \text{ (Model 3)}$$

$$FRQ_4 = + {}_1 GC + {}_2 Liq + {}_3 IA + {}_4 CM + {}_5 FV + {}_9 \text{Age} + E \dots \text{ (Model 4)}$$

$$FRQ_5 = + {}_1 GC + {}_2 Liq + {}_3 IA + {}_4 CM + {}_5 FV + {}_7 \text{Size} + {}_8 \text{Growth} + {}_9 \text{Age} + E \dots \text{ (Model 5)}$$

Where:

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FRQ = financial reporting quality
GC = going concern
Liq = liquidity
HE = asset impairment
CM = contractual modification
FV = fair value

Results and Discussions

Reliability of financial report pre-the COVID-19 pandemic

Table 2 Statistical analysis from 2016 to 2019

	FRQ	GC	LIQ	HE	CM	FV
Mean	-0.002995	29.04065	2.542100	0.240019	7.559298	26.70138
Median	-0.011070	28.70469	1.693329	0.092780	2.028101	26.51337
Maximum	2.980490	33.10834	22.75681	8.666670	268.7916	31.18623
Minimum	-1.149970	21.43975	0.005165	-0.959260	0.190511	19.43826
Std. Dev.	0.252127	1.951868	2.457538	1.049869	22.89054	2.027015
Skewness	9.212966	-0.867165	4.305061	6.142473	9.100547	0.059959
Kurtosis	118.6326	6.464000	31.31074	48.74577	101.1510	2.912276
Jarque-Bera	97686.69	106.9263	6238,880	15985.61	70999.96	0.157290
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.924368
Sum	-0.512130	4965,951	4346992	41.04317	1292,640	4565,936
Sum Sq. Dev.	10.80655	647.6639	1026,714	187.3781	89076.07	698.4944
Observations	171	171	171	171	171	171

Based on the above table, the data are quite varied where the standard deviation is greater than the mean except for the variables GC, LIQ, and FV. To test the model validity in this study, several tests were conducted using Chow test, Hausman test, and Lagrange Multiplier test as follows:

Model 1

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Model 1 is depicted in following equation.

$$FRQ_1 = +_1 GC + _2 Liq + _3 IA + _4 CM + _5 FV + E$$

$$FRQ = 0.012557 - 0.002221GC - 0.000164 LIQ - 0.002497IA + 0.000250CM + 0.001686FV + E$$

It can be concluded that the FRQ without other variables has a value of 0.012557 unit. Then, each increase by 1 unit in GC will decrease in FRQ by 0.002221 unit. Furthermore, each 1 unit increase in LIQ will decrease FRQ by 0.000164 unit. Furthermore, each 1 unit increase in IA will cause a decrease in FRQ by 0.002497 unit. Each increase in CM by one unit will cause an increase in FRQ by 0.000250 unit. Finally, if there is an increase of 1 unit in FV, it will cause an increase in FRQ by 0.00186 unit.

Model 2

The equation of Model 2 is as follows:

$$FRQ_2 = +_1 GC + _2 Liq + _3 IA + _4 CM + _5 FV + _7 Size + E$$

$$FRQ_2 = -0.3311 - 0.007812GC - 0.002682LIQ + 0.000243IA + 0.000110CM - 0.036936 FV + 0.122115 + E$$

It can be concluded that the value of FRQ without other variables is -0.3311 unit. Every increase by one unit in GC will cause a decrease in FRQ by 0.007812 unit. Every 1 unit increase in LIQ will decrease FRQ by 0.002682 unit. Then, every 1 unit increase in IA will cause an increase in FRQ by 0.0002431 unit. Moreover, each increase of 1 unit in CM will cause an increase in FRQ by 0.000110 unit. Finally, every 1 unit increase in FV will cause a decrease in FRQ by 0.03693 unit.

Model 3

The equation of Model 3 is as follows:

$$FRQ_3 = +_1 GC + _2 Liq + _3 IA + _4 CM + _5 FV + _8 Growth + _1$$

$$FRQ_3 = 0.008328 - 0.003384GC + 0.000237LIQ - 0.002773IA + 0.000316CM + 0.003070FV - 0.026585 GROWTH + _1$$

From the above equation, we can conclude that the value of FRQ without other variables has is 0.008328 unit. Every 1 unit increase in GC will cause a decrease in FRQ by 0.003384 unit. Then, each increase by one unit in LIQ will increase FRQ by 0.000237 unit. Then every 1 unit increase in IA will cause a decrease in FRQ by 0.002773 unit. Furthermore, if there is an increase by 1 unit in CM, it will cause an increase in FRQ of 0.000316 unit. Then every 1 unit increase in FV will cause an increase in FRQ by 0.003070 unit. Finally, every 1 unit increase in GROWTH will cause a decrease in FRQ by 0.026585 unit.

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Model 4

The equation of Model 4 is depicted as follows:

$$FRQ_4 = +_1 GC + _2 Liq + _3 IA + _4 CM + _5 FV + _9 Age + E$$

$$FRQ_4 = -0.032157 + 0.007802GC - 0.001775 LIQ + 0.000760IA + 0.000631CM - 0.007935FV + 0.000660AGE + E$$

Based on the equation, we conclude that the value of FRQ without other variables indicates -0.032157 unit. Then, each increase in GC by 1 unit will cause an increase in FRQ by 0.007802 unit. Every 1 unit increase in LIQ will decrease FRQ by 0.001775 unit. Then, every 1 unit increase in IA will cause a decrease in FRQ by 0.000760 unit. Meanwhile, if there is an increase of 1 unit in CM, it will cause an increase in FRQ by 0.000631 unit. Then, every 1 unit increase in FV will cause a decrease in FRQ by 0.00793 unit. Finally, every 1 unit increase in AGE will cause an increase in FRQ by 0.000660 unit.

Model 5

The equation of Model 4 is formulated as follows:

$$FRQ_5 = +_1 GC + _2 Liq + _3 IA + _4 CM + _5 FV + _7 Size + _8 Growth + _9 Age + E$$

$$FRQ_5 = 0.007032 - 0.002519GC - 9.25LIQ - 0.003311IA + 0.000270CM + 0.004602FV - 0.004035SIZE - 0.026270GROWTH - 0.000721AGE + E$$

From the above equation, we can conclude, the FRQ value without other variables is 0.007032 unit. Then, every 1 unit increase in GC will cause a decrease in FRQ by 0.002519 unit. Every 1 unit increase in LIQ will decrease FRQ by 9.25 unit. Then, every 1 unit increase in IA will cause a decrease in FRQ by 0.003311 unit. Afterwards, if there is an increase of 1 unit in CM, it will cause an increase in FRQ of 0.000270 unit. Then, every 1 unit increase in FV will cause an increase in FRQ of 0.004602 unit. Furthermore, every 1 unit increase in SIZE will cause an increase in FRQ of 0.004035 unit. Then, every 1 unit increase in GROWTH will cause a decrease in FRQ by 0.02627 unit. Finally, every 1 unit increase in AGE will cause a decrease in FRQ by 0.000721 unit.

Classic assumption test

In the normality test, there are 4 outlier data from 43 observation data; therefore, only 39 data set can proceed for analysis.

Model 1

In Model 1, there are only 38 data that can be used for the analysis:

Based on the analysis results in the table above where Durbin Watson < 2 , we can conclude that there is no autocorrelation in the model. The data are also normally distributed with

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statistical probability $0.321051 > 0.05$. The equation for Model 1 during the COVID period is as follows:

$$\text{FRQ} = -0.012762 - 0.002265\text{GC} + 0.000322\text{LIQ} - 0.000633\text{IA} + 0.000177\text{CM} + 0.002363\text{FV} + 1$$

Thus, it is concluded that FRQ without other variables has a value of -0.012762 unit. Then, every 1 unit increase in GC will lead to a decrease in FRQ by 0.002265 unit. Furthermore, every 1 unit increase in LIQ will increase the FRQ by 0.000322 unit. Then, every 1 unit increase in IA will cause a decrease in FRQ by 0.000633 unit. Meanwhile, if there is an increase by 1 unit in CM, it will cause an increase in FRQ by 0.000177 unit. Finally, each one unit increase in FV will cause an increase in FRQ by 0.002363 unit.

Model 2

The results of data processing for Model 2 are as follows:

Based on the table above, it shows that Durbin Watson value < 2 , which indicates there is no autocorrelation in the model. Based on the calculation results above, the data is normally distributed with a statistical probability of $0.444823 > 0.05$. The equation for Model 2 during the COVID-19 period is as follows:

$$\text{FRQ} = -0.008301 - 0.002179\text{GC} + 0.000260\text{LIQ} - 0.000807\text{IA} + 0.000135\text{CM} + 0.002520\text{FV} - 0.000841\text{SIZE} + 1$$

It can be concluded that the FRQ without other variables has a value of -0.008301 unit. Then, every 1 unit increase in GC will cause a decrease in FRQ by 0.002179 unit. Every 1 unit increase in LIQ will increase the FRQ by 0.000260 unit. Then every 1 unit increase in IA will cause a decrease in FRQ by 0.000807 unit. Moreover, if there is an increase in CM by 1 unit, it will cause an increase in FRQ of 0.000135 unit. Then, each increase by 1 unit in FV will cause an increase in FRQ by 0.002520 unit. Then every 1 unit increase in SIZE will cause a decrease in FRQ by 0.000841 unit.

Model 3

The results of data processing for Model 3 are as follows:

From the table above, it is seen that Durbin Watson value < 2 which means there is no autocorrelation in the model. Based on the results of the above calculations, the data is normally distributed with a statistical probability of $0.260546 > 0.05$. The equation for Model 3 during COVID-19 period is as follows:

$$\text{FRQ} = -0.008873 - 0.001888\text{GC} + 0.000485\text{LIQ} - 0.001380\text{IA} + 0.000308\text{CM} + 0.001808\text{FV} + 0.013530\text{GROWTH} + 1$$

From the equation above, it can be concluded that the FRQ without other variables has a value of -0.008873 unit. Then every 1 unit increase in GC will cause a decrease in FRQ by 0.001888 unit. Every 1 unit increase in LIQ will increase the FRQ by 0.000485 unit. Then, every 1 unit increase in IA will lead to a decrease in FRQ by 0.001380 unit. Meanwhile, if there is an

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increase in CM by 1 unit, it will cause an increase in FRQ by 0.000308 unit. Then, every 1 unit increase in FV will cause an increase in FRQ by 0.001808 unit. Finally, every 1 unit increase in GROWTH will cause an increase in FRQ by 0.013530 unit.

Model 4

The results of data processing for model 4 are as follows:

$$\text{FRQ} = -0.011263 - 0.002376\text{GC} + 0.000643\text{LIQ} - 0.001891\text{IA} + 0.000332\text{CM} + 0.002573\text{FV} - 0.000213\text{AGE} + 1$$

We can conclude that without other variables, FRQ has a value of -0.011263 unit. Then, every 1 unit increase in GC will cause a decrease in FRQ by 0.002376 unit. Every 1 unit increase in LIQ will increase the FRQ by 0.000643 unit. Then, every 1 unit increase in IA will cause a decrease in FRQ by 0.001891 unit. Moreover, if there is an increase by 1 unit in CM, it will cause an increase in FRQ by 0.000332 unit. Then every 1 unit increase in FV will cause an increase in FRQ by 0.002573 unit. Finally, every 1 unit increase in AGE will cause a decrease in FRQ by 0.000213 unit.

Model 5

The results of data processing for Model 5 are as follows:

$$\text{FRQ} = -0.008684 - 0.002055\text{GC} + 0.000676\text{LIQ} - 0.002105\text{IA} + 0.000387\text{CM} + 0.002088\text{FV} - 4.74\text{SIZE} + 0.010374\text{GROWTH} - 0.000152\text{AGE} + \varepsilon_1$$

We can conclude that the FRQ value without other variables is -0.008684 unit. Then, every 1 unit increase in GC will cause a decrease in FRQ by 0.002055 unit. Every 1 unit increase in LIQ will increase the FRQ by 0.000676 unit. Then, each 1 unit increase in IA will cause a decrease in FRQ by 0.002105 unit. Furthermore, if there is an increase by 1 unit in CM, it will cause an increase in FRQ by 0.000387 unit. Then, every 1 unit increase in FV will cause an increase in FRQ by 0.002088 unit. Then, every 1 unit increase in SIZE will cause a decrease in FRQ by 0.002088 unit. Each 1 unit increase in GROWTH will cause an increase in FRQ by 0.010374 unit. Finally, every 1 unit increase in AGE will cause a decrease in FRQ by 0.000152 unit. Thus, it can be concluded that the fit model based on R^2 can be presented as follows:

Table 3 - Models' goodness of fit based on R^2 values

No	Model	Equality	R^2	Conclusion
1.1	Model 1 pre-COVID-19	$\text{FRQ} = 0.012557 - 0.002221\text{GC} - 0.000164 \text{ LIQ} - 0.002497\text{IA} + 0.000250\text{CM} + 0.001686\text{FV} + 1$	0.064525	Not good
1.2	Model 1 during COVID-19	$\text{FRQ} = -0.012762 - 0.002265\text{GC} + 0.000322\text{LIQ} - 0.000633\text{IA} + 0.000177\text{CM} + 0.002363\text{FV} + 1$	0.156171	Good

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2.1	Model 2 pre-COVID-19	FRQ ₂ = -0.3311 - 0.007812GC - 0.002682LIQ + 0.000243IA + 0.000110CM - 0.036936 FV + ₁	0.390683	Good
2.2	Model 2 during COVID-19	FRQ = -0.008301 - 0.002179GC + 0.000260LIQ - 0.000807IA + 0.000135CM + 0.002520FV - 0.000841SIZE + ₁	0.157363	Good
3.1	Model 3 pre-COVID-19	FRQ ₃ = 0.008328 - 0.003384GC + 0.000237LIQ - 0.002773IA + 0.000316CM + 0.003070FV - 0.026585 GROWTH + ₁	0.117804	Not good
3.2	Model 3 during COVID-19	FRQ = -0.008873 - 0.001888GC + 0.000485LIQ - 0.001380IA + 0.000308CM + 0.001808FV + 0.013530GROWTH + ₁	0.203177	Good
4.1	Model 4 pre-COVID-19	FRQ ₄ = - 0.032157 + 0.007802GC - 0.001775 LIQ + 0.000760IA + 0.000631CM - 0.007935FV + 0.000660AGE + ₁	0.300510	Good
4.2	Model 4 during COVID-19	FRQ = -0.011263 - 0.002376GC + 0.000643LIQ - 0.001891IA + 0.000332CM + 0.002573FV - 0.000213AGE + ₁	0.197302	Not good
5.1	Model 5 pre-COVID-19	FRQ ₅ = 0.007032 - 0.002519GC - 9.25LIQ - 0.003311IA + 0.000270CM + 0.004602FV - 0.004035SIZE -0.026270GROWTH - 0.000721AGE + ₁	0.120230	Not good
5.2	Model 5 during COVID-19	FRQ = -0.008684 - 0.002055GC + 0.000676LIQ - 0.002105IA + 0.000387CM + 0.002088FV - 4.74SIZE + 0.010374GROWTH - 0.000152 AGE + ₁	0.221590	Good

Based on the influence direction of the independent variable on the dependent, it can be described as follows:

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Table 4 - Direction variable

No	Model	□	GC	LIQ	HE	CM	FV	GR	SIZE	AGE
1.1.	Model 1 pre-COVID-19	+	-	-	-	+	+	0	0	0
1.2.	Model 1 during COVID-19	-	-	+	-	+	+	0	0	0
2.1.	Model 2 pre-COVID-19	-	-	-	+	+	-	0	0	0
2.2.	Model 2 during COVID-19	-	-	+	-	+	+	0	0	0
3.1.	Model 3 pre-COVID-19	+	-	+	-	+	+	-	0	0
3.2.	Model 3 COVID-19 period	-	-	+	-	+	+	+	0	0
4.1.	Model 4 pre-COVID-19	-	+	-	+	+	-	0	0	+
4.2.	Model 4 COVID-19 period	-	-	+	-	+	+	0	0	-
5.1.	Model 5 pre-COVID-19	+	-	-	-	+	+	-	-	-
5.2.	Model 5 COVID-19 period	-	-	+	-	+	+	-	+	-

By observing the influence direction of the independent variable on the dependent variable as shown in the table above, we can conclude that the quality of financial reports during the COVID-19 pandemic has improved in comparison to those before the pandemic.

CONCLUSIONS

Quality of financial reporting before and during the COVID-19 period quite varies with the represented with the models above. The study reveals that the quality of financial reports is deemed to be better during the COVID-19 period than those before the pandemic. It can be seen from the results of the fit model analysis (R^2) that shows a higher value than those before the

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COVID-19 pandemic occurred. Several independent variables experience the opposite direction to the dependent, where during the pandemic period, these variables improved.

The interdependent variable of growth (GR) and firm size (SIZE) is quite dominant in influencing the improvement of the quality of financial reports during the pandemic, except that the company's age (AGE) that does not dominantly affect the quality of financial reports. The best financial report quality model before the pandemic period was formulated $FRQ_2 = -0.3311 - 0.007812GC - 0.002682LIQ + 0.000243IA + 0.000110CM - 0.036936FV + \varepsilon_1$, with an R^2 level of 39.068%. Meanwhile, going concern (GC), liquidity (Liq), and fair value (FV) do not significantly improve the quality of financial reporting before the pandemic.

The best model during the COVID-19 pandemic is formula $FRQ = -0.008684 - 0.002055GC + 0.000676LIQ - 0.002105IA + 0.000387CM + 0.002088FV - 4.74SIZE + 0.010374GROWTH - 0.000152AGE + \varepsilon_1$, with an R^2 level of 22.159%. The variables that significantly improve the quality of financial reporting are the level of liquidity (Liq), contract modification (CM), fair value (FV), and the company growth rate (GROWTH).

The company's liquidity level during the pandemic is crucial to maintain the company for running stable operations. The decline in people's purchasing power will affect the company's liquidity due to a decrease in the level of demand for goods and services from the company's output. The company seeks to disclose its financial condition during the pandemic to stakeholders to obtain special attention in dealing with the crisis due to the pandemic. Disclosure of the company's real financial condition in the financial statements will have a positive impact on its management in dealing with the pandemic.

Contract modification during the pandemic would help the level of liquidity and reduce the company's burden. The pandemic period caused several agreements that the company had made with third parties to experience disruption. For example, the agreement to pay the company's debt installments to the bank will be rescheduled following the company's financial capabilities affected by the pandemic. Contract modifications disclosed in the company's financial statements will help management overcome existing problems so that stakeholders recognize that the steps are taken by the company in dealing with the pandemic.

The fair value of the company's assets and liabilities must be disclosed to stakeholders in the financial statements. Generally, the value of company assets will experience an unnatural shift due to the pandemic. For example, receivables reported in the financial statements have the potential to be uncollectible greater than estimated due to some customers going bankrupt or having difficulty meeting their obligations due to the pandemic. Fixed assets of companies whose operations have been suspended due to the pandemic also have the potential to experience a decline in their economic value. Companies that report assets and liabilities at fair value will assist management and stakeholders in making decisions and subsequent business strategies.

The COVID-19 pandemic has changed the quality of financial reporting. The assumption that it has worsened the quality of financial reporting is not accurately proven. Variables with allegedly negative effect on the quality of financial reports during the pandemic show positive relationships, such as liquidity, contract modification, fair value, and company growth rate. On

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the other hand, going concern variable, decreasing value and company size have a negative effect on the quality of financial statements.

A serious attention should be taken by the companies for survival estimates during the pandemic. The pandemic condition with unpredictable ending is a serious threat to the company's survival. Error estimates regarding the viability of the company in the financial statements will have a negative impact on stakeholders. Estimates of the company's viability cannot be fairly predicted, causing a decrease in the quality of financial statements.

The decline in a company assets value during the pandemic needs to be observed. Determination of fair value for asset impairment has a negative impact on the quality of financial statements. The pandemic condition leads to the high level of uncertainty. Asset values adjusted for the economic conditions of the pandemic may not last long due to uncertain conditions. It is possible that the determination of the asset value impairment does not reflect the actual condition. Therefore, determining the decline in company assets does not only consider current conditions but also predicts recovery conditions after the pandemic.

On the other hand, a firm size has a negative effect on the quality of financial reporting during the pandemic. The larger the size of the company, the higher the level of decline in the quality of financial statements. Companies with large assets and turnover will face higher difficulties than the smaller ones because of the complexity of business, operations, financial systems, and management systems. The high level of risk of large companies to operations, financial reporting and compliance with regulations contributes to the quality of financial reports. Therefore, companies with large sizes can delegate operational, financial and management systems to smaller size ones by creating independent business units, such as subsidiaries or other independent business units.

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