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Effect of Others Comprehensive Income on Company Value by Mediation of Retained Earnings: Evidence From Indonesia

Agus Athori[1*], **Marhaendra Kusuma**[2]
[1,2]Program Studi Akuntansi, Universitas Islam Kadiri
[1]marhaenis@uniska-kediri.ac.id
[*)]Marhaendra Kusuma

Abstrak

Penelitian ini bertujuan untuk menguji peran moderasi saldo laba dalam pengaruh penghasilan komprehensif lainnya (OCI) yang akan direklasifikasi dan yang tidak akan direklafisikasi terhadap nilai perusahaan. Data penelitian ini adalah harga saham dan laporan keuangan 674 perusahaan yang terdaftar di BEI semua sektor industri periode tahun 2016-2017. Analisis Data dengan Path Analysis. Hasil penelitian menunjukkan bahwa saldo laba mampu memoderasi pengaruh OCI yang akan dan tidak akan direklasifikasi terhadap nilai perusahaan. Laba ditahan merupakan akumulasi laba periode yang lalu termasuk menampung pendapatan dari realisasi OCI yang sebelumnya disajikan sebagai suatu kelompok yang tidak akan direklasifikasi ke laba bersih, yang pada akhirnya pos-pos tersebut menjadi bagian dari laba ditahan, termasuk pos-pos OCI untuk periode terdekat yang besarnya dan waktu realisasinya yang tidak diketahui secara pasti pada akhirnya juga akan menjadi bagian dari laba ditahan.
Kata kunci: Penghasilan Komprehensif Lainnya, Saldo Laba, Nilai Perusahaan.

Abstract

This study aims to examine the moderating role of retained earnings in the influence of other comprehensive income (OCI) that will be reclassified and that will not be reclassified on company value. The data for this research are share prices and financial reports of 674 companies listed on the IDX in all industrial sectors for the 2016-2017 period. Data Analysis with Path Analysis. The research results show that retained earnings are able to moderate the influence of OCI that will and will not be reclassified on company value. Retained earnings are the accumulation of profits from previous periods, including accommodating income from the realization of OCI which was previously presented as a group that will not be reclassified to net profit, which in turn these items become part of retained earnings, including OCI posts for the nearest period. the amount and time of realization which are not known with certainty will ultimately also become part of retained earnings.
Keywords: Others comprehensive income, retained earnings, company value

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INTRODUCTION

The value of the company is still an interesting topic of study to do, because it shows how much the market gives a "price" to the company, especially shares traded in the capital market. Firm value is the ratio of the market value of a company's equity to the book value of its equity, the higher the company value, the greater the ratio of stock market prices to book value of equity, meaning that the market believes the company's ability to provide optimal future investment returns, which in turn influences its investment decisions in the future. Now, so that market mechanisms form stock prices at certain price points. So far, financial accounting research has proven many factors that influence company value, both positive and negative influences. Factors that have a positive effect on company value include: financial performance or profitability (Hertina et al., 2019), technological innovation (Choi & Yoo, 2022), inflation rate (Pasaribu et al., 2019), company growth (Ramdhonah et al., 2019), liquidity level (Yanti & Darmayanti, 2019), dividend policy (Dessriadi et al., 2022), company size (Anggita & Andayani, 2022), managerial ownership (Dewi & Abundanti, 2019), implementation of Good Corporate Governance (Putranto et al., 2022), and disclosure of Corporate Social Responsibility (Irmalasari et al., 2022). Meanwhile, the factors that have a negative effect on firm value include: level of leverage or capital structure (DER) (Irawan & Kusuma, 2019), earnings management practices (Insyaroh & Widiatmoko, 2022), tax avoidance measures (Laksmi et al., 2023), foreign exchange rates (Pasaribu et al., 2019) and institutional ownership (Dewi & Abundanti, 2019).

Market participants in making investment decisions, one of the media is the information contained in financial reports. Financial reports are an important medium for market participants to assess whether or not an investment is feasible, by evaluating financial performance through financial ratio analysis, determining the level of financial soundness, and predicting future investment returns, as a consideration for decision making. The theory of information content of earnings (Ball & Brown, 1968) states that accounting profit presented in financial reports is used by investors in making investment decisions. The share price formed by the market mechanism is an equilibrium point of the price attraction (supply and demand) between investors and companies issuing shares as well as between investors in the capital market. Ball & Brown's research (1968) proved for the first time that stock prices at the time of publication of financial reports (publication of earnings) changed significantly since accounting earnings were published. This means, the information contained in the financial statements affects the stock price, what the company informs in the financial statements (especially profits) will affect the value of the company.

The profit information contained in the financial statements (net profit in the income statement and retained earnings in the statement of financial position), in its preparation and presentation results from a series of accounting processes that are guided by the Financial Accounting Standards (SAK) applicable in the country where the company is established, operates and sells its shares in the capital market. Changes in SAK policy will affect the content and display format of financial reports, including changes in Indonesian SAK policy since convergence with international accounting standards International Financial Reporting Standard (IFRS). The impact of IFRS convergence by SAK Indonesia is a change in the contents and appearance of the presentation of the income statement, namely by adding other comprehensive income information (Others Comprehensive Income or abbreviated as OCI) and disaggregating net income and total comprehensive income (net income plus OCI) into the two type of company owner, namely profits attributable to owners of the parent entity and non-controlling interests (Kusuma & Saputra, 2022).

Studies that examine changes in the appearance of income statements on firm value, especially the effect of comprehensive or specific income on the effect of OCI on firm value, are still not widely carried out. Research so far is still limited to the effect of net income on firm value. Kusuma (2021) tested the effect of Return on Assets (ROA) and Return on Equity (ROE) by modifying the profit value not only net income but using comprehensive income. The research model is to test the effect of conventional ROA and ROE (net income) as well as modified ROA and ROE (comprehensive income) on firm value proxied by Tobbin's Q. The results prove that ROA and ROE with modified comprehensive income have a significant positive effect on firm value, and the coefficient of influence of ROA and ROE based on comprehensive income that does not involve OCI groups that will not be reclassified to net income is higher and significant than the ROA coefficient of aggregate comprehensive income ROE which involves two OCI groups at once. Specifically, this study concludes that group OCI items that will not be reclassified to net income have no effect on firm value.

Talking about OCI, it is closely related to the application of fair value accounting in Indonesian SAK. Assets and debts that were previously valued and presented at historical value or carrying value, since IFRS convergent SAK, has changed significantly its policy whereby assets and debts are valued and presented at fair value. Adjustment of the carrying amount to fair value is then recognized as unrealized income or OCI.Putra et al., (2022) tested the effect of fair value on firm value in banking sector companies listed on the IDX for the period 2015 – 2019. The results showed that fair value as measured by the amount of profit (loss) has not been realized which is presented in the income statement loss has a positive effect on the quality of earnings and firm value.

The research position is developed by Kusuma (2021) and Putra et al., (2022) with the aim of proving the effect of OCI on retained earnings, especially for items that will not be reclassified to net income and testing the role of retained earnings in mediating the effect of OCI on firm value. The originality of this research is testing the effect of OCI on retained earnings, both in aggregate and disaggregated into items that will be reclassified and items that will not be reclassified, as well as testing the mediating role of retained earnings in the effect of OCI on firm value. Research so far has only examined the effect of other comprehensive income (OCI) on firm value (Kusuma, 2021; Putra et al., 2022) and the effect of retained earnings on firm value (Hermuningsih et al., 2021; Yemi & Seriki, 2018; Javed & Shah, 2015). Not many studies have examined the effect of OCI on retained earnings and the mediating role of retained earnings in the effect of OCI on firm value. This test is important to do to fill the gaps in the academic literature in the field of financial accounting, especially empirical evidence of the relevance value of group OCI items that will not be reclassified to net income, where their age as unrealized income is longer than other group OCI items. The results of this study are also useful for investors in making investment decisions based on information on retained earnings and OCI aggregation in the potential to be realized and not to be realized.

Proof of the hypothesis was carried out on financial report data and stock prices for 504 companies listed on the Indonesia Stock Exchange for the period 2016 – 2021. The test results prove that two groups of OCI items which will be reclassified (OCI AR) and will not be reclassified to net income (OCI TR) have a significant positive effect on retained earnings, while that which has a significant effect on firm value is only the OCI group that will be reclassified. Retained earnings mediate the effect of the two OCI groups on firm value. This cannot be separated from the function of the balance of earnings itself in the company's equity structure as a collection account for accumulated profits. Revenue from OCI realization eventually also becomes part of retained earnings, including for OCI items that will not be realized in the nearest period presented in groups that will not be reclassified to net income.

This paper consists of five parts. The first part explains why it is important for this research to be carried out and what novelty it brings to the repertoire of academic literature, especially the field of financial accounting. The second part describes the theoretical basis, including explanations of the signaling theory and the theory of information content of earnings as the grand theories that underlie the justification of the hypotheses in this study. The third section describes the research methodology, how to measure the variables and the research model built to test the hypotheses. The fourth part is about the results of data analysis and discussion. The fifth part is about conclusions, limitations and suggestions.

LITERATURE REVIEW

The value of the company

Firm value is the price given by the market for the company. Business activities, financial performance, investment returns provided and even technological innovations developed (Choi & Yoo, 2022) and research and development activities carried out by companies (Guo & Hou, 2020) are market considerations in pricing companies. The company value reflects the company's market value (Saymeh et al., 2019) and is measured by the Tobin's Q or Price to Book Value (PBV) formulation. The company value reflects the comparison of the book value of equity with its market value. The higher the firm value, the higher the market perceives the company's positive performance, which leads to higher expectations of future investment returns which lead to high stock prices. Share prices arise due to market mechanisms in the capital market (Kusuma, 2021b). The main factor that determines a company's value is its financial performance (Rahayu, 2019), because financial performance reflects the company's operational achievements in utilizing assets and debt in an effort to maximize investor investment returns through dividends from profit.

The theory of information content of earnings (Ball & Brown, 1968) states that the market reacts to earnings information which has an impact on changes in stock prices at the time the earnings information is published. Profit for the current period plus accumulated net profit for the past period since the company was founded, presented in retained earnings. This research is based on the grand theory of the information content of earnings of Ball & Brown (1968) in forming the hypothesis of the relationship between retained earnings and firm value. Retained earnings also only accommodate net income from gains (losses) on realized assets which were presented in the previous period as other comprehensive income (OCI).

Disaggregation of Reclassification of Other Comprehensive Income

OCI is unrealized income and is presented in the income statement and arises from the adjustment of the value of assets and debts from carrying value to fair value at the date of presentation of the financial statements (Banks et al., 2018). There are five OCI items, and in their presentation in the income statement they are grouped into two, namely items that will be reclassified to net income and items that will not be reclassified to net income. OCI items presented in the "which will be reclassified to net income" group, meaning that the unrealized income (from adjusting the fair value of assets or debt) in the next accounting period turns into realized income so that it is presented in the net income section (no longer OCI), because assets has been sold or the debt has been repaid (no more fair value adjustments because assets or debts have been realized), and the realization has actually resulted in realized gains (losses) not just mere adjustments. OCI items included in this group are usually adjustments to the fair value of financial assets in the available-for-sale category and cash flow hedges (Kusuma, Zuhroh, et al., 2021). This is in line with the short-term investment objective, which is the price difference motivation (capital gain), so when the stock price is deemed profitable, the available-for-sale financial assets have actually been sold and the profits are presented in net income as realized income. Likewise for cash flow hedges, at the maturity date of the cash flow hedge contract from export-import activities, in the period before the maturity of the contract the entity presents a fair value adjustment in the OCI group which will be reclassified to net income. The second group, OCI items presented in the "that will not be reclassified to net income" group, means that the unrealized income (from adjusting the fair value of assets or debt) in the next accounting period does not turn into realized income so that it remains presented on OCI, because assets or the debt has not been realized and it is not certain when and how much it will be realized in the near future. Because OCI is part of comprehensive income and is a nominal account (shown on the income statement), it is closed to retained earnings. This means, in the same way that group OCI items “that will not be reclassified to net income” will eventually be reclassified to retained earnings.

Retained Earnings

The Retained Earnings Hypothesis states that the large value of retained earnings presented is a good signal for the market (Woolridge, 1983) and recent studies in the United States market consistently support this hypothesis (Heavilin & Songur, 2018). Signaling theory (Spence, 1973) states that information in financial reports is a positive signal for market participants in evaluating performance to predict investment returns. In the context of this study, the large value of retained earnings presented in the financial statements is a positive signal for investors in predicting future investment returns, because retained earnings are the accumulation of net income (operational performance) since the company was founded (Ball et al., 2020) and when the dividend payment is announced, the accounting records debit it to the retained earnings account. Fischer et al., (2019) defines retained earnings as accumulated net profit that is not distributed to investors through dividend payments. If the operating performance of a period is not good, the company can still distribute dividends from the previous period's accumulated profits in retained earnings, meaning that information on retained earnings guarantees more return on investment than net income itself. Studies so far have succeeded in proving that retained earnings information has relevance value, as evidenced by its ability to influence stock prices as a reflection of market reactions in making investment decisions (Ball et al., 2020; Yemi & Seriki, 2018) and its ability to predict future earnings. Come (Hadi & Wijaya, 2019).

Linkage of OCI Reclassification Disaggregation, Retained Earnings and Company Value

The comprehensive income component will be closed in retained earnings, both net income and the two groups of OCI items (will be reclassified and will not be reclassified). How retained earnings mediate comprehensive income with its various components to market reactions is interesting to study. Previous studies show that group OCI items that will not be reclassified have a lower relevance value coefficient than aggregate OCI or OCI that will be reclassified to net income, both for stock returns (Kusuma, 2021a), the ability to predict cash flows (Kusuma, 2020b), predict earnings (Kusuma, Zuhroh, et al., 2021), predicting dividends (Kusuma & Agustin, 2023) and the ability to influence firm value (Kusuma, 2021). Likewise, when it is involved in modifying the analysis of comprehensive profit-based financial ratios, the modification of comprehensive profit ROA has more use value when it does not involve OCI which will not be reclassified to net income (Kusuma, 2021a), as well as modifications to ROE (Kusuma, Assih, et al., 2021) and modifications to NPM (Murdiyanto & Kusuma, 2022). Mediated by retained earnings, this study suspects that OCI items that will not be reclassified to net income will have an effect on firm value. The value of retained earnings, which includes comprehensive income, is a signal for investors about their ability to provide investment returns in the future, through accumulated profits (including comprehensive income) in previous periods.

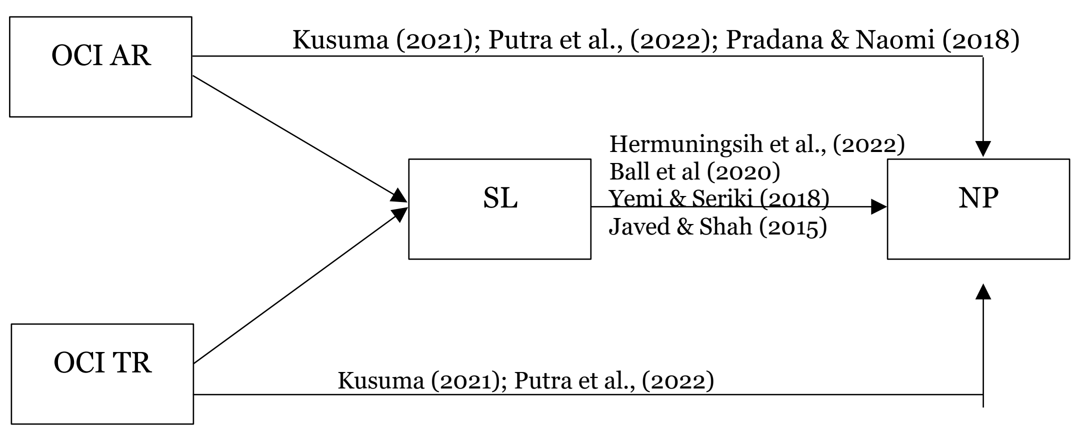


Figure 1. Research Conceptual Framwork

Hypothesis Formulation

Effect of Disaggregation of Reclassification of Other Comprehensive Income on Company Value.

Studies in Israel by Chen & Gavious (2016) and in Indonesia by Kusuma & Agustin (2023), OCI has a positive effect on dividends, especially group OCI items that will be reclassified to net income, while group OCI items will not be reclassified to net income, has no effect on dividends. The Kusuma IJFR study concludes that aggregate OCI has a relevance value proxied by its ability to predict future earnings and the coefficient of predictive power will be higher when comprehensive income only consists of net income and aggregate OCI without involving group OCI items that will not be reclassified to net income. This also applies in predicting future cash flows (Kusuma, 2020b), the effect on stock returns (Kusuma, 2020a), modification of financial ratios such as ROA, ROE and NPM based on comprehensive income (Kusuma, 2021). The results of the study by Putra et al., (2022) concluded that fair value (OCI) has a significant effect on company value. Kusuma (2021)'s study concluded that aggregate OCI has a significant positive effect on firm value by proxy Tobbin's Q, and the explanatory coefficient will be higher when comprehensive income only consists of net income and aggregate OCI which does not involve group OCI items that will not be reclassified to net income. Pradana & Naomi (2018) examine group OCI items that will be reclassified to net income and focus on one item, namely cash flow hedges in non-bank and find evidence that cash flow hedges have a significant effect on company value.

H1a. OCI will be reclassified to net income has a positive effect on company value.
H1b. OCI will not be reclassified to net income has a positive effect on company value.

Effect of Retained Earnings on Firm Value

Ball et al., (2020) tested the value of the relevance of retained earnings information in equity statement of financial position for companies listed on the United States capital market (NYSE, Amex, and Nasdaq) for the period 1964 – 2017, and found evidence that retained earnings have a positive effect on the rate of return on investment. Hermuningsih et al., (2021) examined the effect of retained earnings on firm value in manufacturing sector companies on the Indonesia Stock Exchange in 2018 – 2020. Firm value is measured by the ratio of stock prices to book value of equity (MVB), while retained earnings are measured by a scale to total assets. The results of the study show that retained earnings have a positive effect on firm value. (Yemi & Seriki, 2018) examined the effect of retained earnings on firm value in non-financial sector companies on the Nigerian Stock Exchange from 2003 to 2014. Firm value is measured by two proxies, namely Tobbin's Q and MVB, while retained earnings are measured by retained earnings per share (RPS). The results showed that retained earnings had a positive effect on two proxies for firm value. Javed & Shah (2015) examined the effect of retained earnings on firm value in food and personal care manufacturing companies listed on the Pakistan Karachi Stock Exchange in 2009 – 2014. The results showed that retained earnings had a positive effect on firm value.

H2. Retained earnings have a positive effect on firm value.

Mediation of Retained Earnings in the Effect of OCI on Company Value

The transitory nature inherent in OCI, especially its characteristic as unrealized income, which is only a fair value adjustment, makes aggregate OCI (accumulation of all OCI items) less relevant than net income or comprehensive income. Many research results have proven this (Kusuma, 2020a; Kusuma, Zuhroh, et al., 2021; Kusuma & Rahayu, 2022; Kusuma, 2023). However, all the results of these studies agree that when the OCI disaggregation is tested, the OCI item "group that will be reclassified to net income" has a better relevance value than the aggregate OCI or the OCI item "group that will not be reclassified to net income", which is shown from a significant influence on stock returns (Kusuma, 2020a), Cumulative Abnormal Return and greater ERC (Kusuma et al., 2022), able to predict future earnings (Kusuma, Zuhroh, et al., 2021), able to predict cash flow (Kusuma, 2020b), predict dividends (Kusuma & Agustin, 2023), and increasing the usefulness of evaluating financial performance through modification of comprehensive profit-based ROA (Kusuma, 2021a; Robik et al., 2021), ROE of comprehensive profit and attributable profit (Kusuma, Assih, et al., 2021; Kusuma & Athori, 2023), and modification of NPM (Murdiyanto & Kusuma, 2022). The relevance value of comprehensive income will be better, if the components in it are only net income and OCI items "groups that will be reclassified to net income", or the outline of the information content of comprehensive income will be higher if removing the OCI item "groups that will not be reclassified to net income". Previous research has proven that the OCI item group "which will not be reclassified to net income" has no significant effect on stock returns (Kusuma, 2020), CAR (Kusuma et al., 2022), unable to predict earnings, cash flow and dividends (Kusuma & Agustin, 2023). This is because this item will not be realized in the near future, it remains an OCI that is completely unrelated to cash flows and net income. However, because it is ultimately closed to retained earnings, where retained earnings are an accumulation of past earnings (performance) that reflect the company's ability to provide future investment returns (Hermuningsih et al., 2022; Yemi & Seriki, 2018; Javed & Shah, 2015), then this study tries to examine the mediating role of retained earnings in increasing the relevance value of group OCI items that will not be reclassified to net income. This is an area that is still empty, not many have tested it.

H3a. Retained earnings mediate the effect of OCI will be reclassified on company value.

H3b. Retained earnings mediate the effect of OCI will not be reclassified on company value.

RESEARCH METHOD

Population and Research Sample

The population in this study are all corporate sectors listed on the Indonesia Stock Exchange for the 2016 – 2021 period, a total of 674 companies. The sample was selected using a purposive sampling technique with criteria including being registered before 2016, regularly publishing financial reports during the study period, financial reports in Rupiah units, and clearly presenting OCI disaggregation information in reclassifications. Based on these criteria, 504 companies or 74.7% were selected as a sample. The data obtained from the financial statements include the value of retained earnings, OCI (aggregated and disaggregated in reclassification), book value of equity and total assets. Stock price information is obtained separately from the financial statements. All data were obtained from the Postgraduate Investment Gallery, University of Merdeka Malang.

Research Variables and Measurements

Based on the research conceptual framework and the hypotheses to be tested, the variables in this study consist of independent variables (OCI that is aggregated to groups of items that will be reclassified to net income and OCI that is aggregated to groups of items that will not be reclassified to net income), control variables (company size and type of industry), mediating variable (retained earnings) and firm value as the dependent variable. Variable measurement with a ratio scale with the following formulation:

1. Dependent variable

The dependent variable in this study is firm value. Firm value is the "price" given by the market mechanism for the company's reputation, or how much capital market participants price a company going public, namely the ratio of the market value of equity to the book value stated in the financial statements. If the market value of the equity is higher than the book value, then the market values the company favorably. The greater the value of the company, the better, meaning that the market gives a higher price for the company. Firm value is measured from Tobbin's Q and Market to Book Value (MBV). In this study, firm value i period t (NPi,t) is proxied by MBV. MBVi,t or market to book value of company i period t is calculated using the formulation following the research of Hermuningsih et al., (2022) as follows:

$$NP_{i,t} = MBV_{i,t} = \frac{Stock\ Price_{i,t}}{Book\ Value_{i,t}}$$

The stock market price used in this study is the closing price on the day of publication of the financial statements. Book value of shares, calculated by the formula:

$$Book\ Value_{i,t} = \frac{Total\ Equity_{i,t}}{Shares\ Outstanding_{i,t}}$$

2. Mediation variable

The mediating variable in this study is retained earnings. Retained earnings are the accumulation of total comprehensive income for the current and previous periods. The value of retained earnings for period t is calculated from the retained earnings for period t-1 plus (deducting) net profit (loss) for period t, plus (deducting) OCI for period t, plus paid-up capital for non-controlling interests for period t, and deducting dividends for period t. Retained earnings are presented in equity by disaggregating their value into the amount reserved for use and the amount not yet reserved. This reserve for retained earnings is an allowance obligation under the Company Law in force in Indonesia. Retained earnings (SLi,t) in this study are measured using the total asset scale following the research of Hermuningsih et al., (2022) as follows:

$$SL_{i,t} = \frac{Retained\ Earnings_{i,t}}{Total\ Assets_{i,t}}$$

3. Independent variable

The independent variable (X1) in this study is the group OCI item that will be reclassified to net income. The group OCI items that will be reclassified to net income are OCI items which in period t are presented as OCI and in period t+1 have the potential to be presented in net income because they have become real income realized due to the realization of assets or debt. Group OCI items that will be reclassified to company net profit i period t (OCI ARi,t) in this study are scaled in total assets following the research of Kusuma (2021), with the following formulation:

$$OCI\ AR_{i,t} = \frac{OCI\ will\ be\ Reclassified_{i,t}}{Total\ Asset_{i,t}}$$

The independent variable (X2) in this study is a group OCI item that will not be reclassified to net income. Group OCI items that will not be reclassified to net income are OCI items which in period t are presented as OCI and in period t+1 are also presented as OCI because there are no plans to realize assets or debt. Group OCI items that will not be reclassified to company net profit i period t (OCI TRi,t) in this study are scaled in total assets following the research of Kusuma (2021), with the following formulation:

$$OCI\ TR_{i,t} = \frac{OCI\ will\ not\ be\ Reclassified_{i,t}}{Total\ Aset_{i,t}}$$

4. Control variable

Control variables are involved to improve the quality of the research model which is built through the magnitude of the value of adjusted R^2 and the significance of F, as well as to see how much influence the control variables have on firm value, but are not the focus of research so they are not built in hypotheses. There are two control variables in this study, namely company size (SIZEi,t) and type of industry (INDS). The measurement of company size variables follows Kusuma's IJFR research as follows:

$$SIZE_{i,t} = Log\ N\ Total\ Asset_{i,t}$$

Measurement of the type of industry variable using dummys, namely a value of 1 for companies engaged in the financial sector, such as banks, finance companies, insurance and other financial services. Value 0 for the type of non-financial company.

Data Analysis Technique

Hypothesis testing for hypotheses 1 and 2 was carried out with multiple linear regression analysis, while hypothesis testing 3 was carried out with Path analysis. The research model built for hypothesis testing is as follows:

$$SL_{i,t} = \alpha_0 + \beta_1 OCIAR_{i,t} + \beta_2 OCITR_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 INDS_{i,t} + \varepsilon \quad (1)$$

$$NP_{i,t} = \alpha_0 + \beta_1 OCIAR_{i,t} + \beta_2 OCITR_{i,t} + \beta_3 SL_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 INDS_{i,t} + \varepsilon \quad (2)$$

H1a which states that other comprehensive income aggregated to groups that will be reclassified to net income has a positive effect on firm value, is accepted if the coefficient $\beta_1 OCIAR_{i,t}$ in equation 2 is significant at the 10% level. H1b which states that other comprehensive income that is aggregated into groups that will not be reclassified to net income has a positive effect on firm value, is accepted if the coefficient $\beta_1 OCITR_{i,t}$ in equation 2 is significant at the 10% level. H2 which states that retained earnings have a positive effect on firm value, is accepted if the coefficient $\beta_3 SL_{i,t}$ in equation 2 is significant at the 10% level. H3a which states that retained earnings mediate the effect of other comprehensive income that is aggregated into groups that will be reclassified to net income on firm value, is accepted if the indirect effect of retained earnings through equation 2 is greater than the coefficient of direct effect on firm value equation 1. Likewise in H3b, retained earnings mediate the effect of other comprehensive income that is aggregated into groups that will not be reclassified to net income on firm value, is accepted if the indirect effect of retained earnings through equation 2 is greater than the coefficient of direct effect on firm value equation 1.

RESULTS AND DISCUSSION

1. Results of Descriptive Statistics

Table 1 presents the results of descriptive statistics. The mean OCI to be reclassified (OCI AR) is positive at 0.026, this means that the adjustment to the fair value of assets and debt to be realized in the near future is higher than the carrying amount, so the OCI AR is positive. Likewise for OCI that will not be reclassified (OCI TR), it has a positive mean of 0.044, meaning that the fair value of assets and debts that will not be realized in the near future is higher than their carrying value. The mean OCI TR is higher than the mean OCI AR, meaning that during the study period the number of OCI items that will not be reclassified is more than those that will be reclassified. Meanwhile, the mean INDS value is 0.451, meaning that 45.5% of the sample companies are financial sector companies.

Table 1. Results of Descriptive Statistics

	Mean	Min	Max	SD
OCI AR	0.026	–0.355	0.544	0.252
OCI TR	0.044	–0.761	0.150	0.066
SIZE	6.7023	2.045	10.781	0.811
INDS	0.451	0	1	0.921
SL	0.439	0.231	0.672	0.451
NP	14.067	11.432	18.051	0.974

2. Correlation Analysis Results

Table 2 below shows the results of the correlation analysis. OCI AR and OCI TR have a significant positive correlation with retained earnings (0.6114** and 0.5081**), this is because OCI AR and OCI TR all items will be closed in retained earnings. OCI AR will be realized and become part of the net profit, and the net profit will eventually be closed in retained earnings. OCI TR will not be realized and will remain as OCI, and will be presented on the equity balance sheet at accumulated OCI. OCI AR and OCI TR have a significant positive correlation with the type of industry (0.3041** and 0.3182**). which led to the recognition of unrealized earnings.

Table 2. Correlation Analysis Results

	OCI AR	OCI TR	SIZE	INDS	SL	NP
OCI AR	1.0000					
OCI TR	0.2451**	1.0000				
SIZE	0.2045*	0.1988	1.0000			
INDS	0.3041**	0.3182**	0.0045	1.0000		
SL	0.6114**	0.5081**	0.9923***	0.0184	1.0000	
NP	0.2048**	0.0165	0.9048***	0.0134	0.8265***	1.0000

Note : ***, **, * level of significans of Pearson Corellation in 1%, 5% dan 10%.

3. Results of Multiple Linear Regression Analysis

Table 3 below shows the results of multiple linear regression analysis. The OCI AR coefficient in equation 2 shows a value of 0.2268 (3.1924)** significant at the 5% level, then H1a is accepted, other comprehensive income that is aggregated into groups that will be reclassified to net income has a positive effect on firm value. The OCI TR coefficient in equation 2 shows a value of 0.0172 (2.0345), has a positive but not significant effect, then H1b is rejected, other comprehensive income that is aggregated into groups that will not be reclassified to net income has no effect on firm value. The retained earnings coefficient in equation 2 shows a value of 0.8153 (4.9066) *** significant at the 1% level, then H2 is accepted, retained earnings have a positive effect on firm value.

Table 3. Results of Multiple Linear Regression Analysis

	(1) SL	(2) NP
OCI AR	0.6082 (4.1107)**	0.2268 (3.1924)**
OCI TR	0.5311 (5.7451)**	0.0172 (2.0345)
SIZE	1.0923 (8.0912)***	0.9433 (4.9204)***
INDS	0.0201 (1.0167)	0.0139 (2.0045)
SL	-	0.8153 (4.9066)***
F-Statistics	11.0912	14.0087

R^2	0.4809	0.5211

Note : ***, **, * level of significans of Regression Coefficient in 1%, 5% dan 10%.

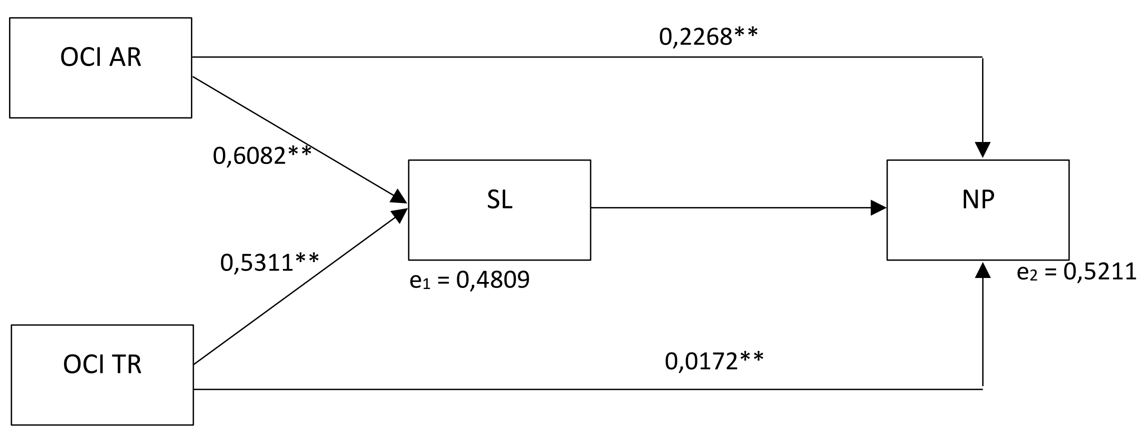
4. Path Analysis Results

Table 4 below is the result of path analysis. The path coefficient through retained earnings on the effect of OCI AR on NP is 0.4959, this value is higher than the coefficient of direct effect of OCI AR on NP without going through retained earnings of 0.2268, thus H3a is accepted, retained earnings mediates the effect of other comprehensive income aggregated to the group that will be reclassified to net income to company value. Likewise for the path coefficient through retained earnings on the effect of OCI TR on NP of 0.4330, this value is higher than the coefficient of the direct effect of OCI TR on NP without going through retained earnings of 0.0172, thus H3b is accepted, retained earnings mediate the effect other comprehensive income that is aggregated into groups that will not be reclassified to net income against company value.

Table 4. Path Analysis Results

	Direct Effect	Mediated RE	Results
Effect OCI to Retained Earnings			
OCI AR --> SL	0.6082	-	-
OCI TR --> SL	0.5311	-	-
Effect OCI to Firm Value			
OCI AR --> NP	0.2268	-	-
OCI TR --> NP	0.0172	-	-
Effect RE to Firm Value			
SL --> NP	0.8153	-	-
Effect OCI to Firm Value Mediated RE			
OCI AR --> SL --> NP	0.2268	0.4959	SL can mediated
OCI TR --> SL --> NP	0.0172	0.4330	SL can mediated

Figure 2 below shows the magnitude of the coefficient of each variable and R2 in each of the regression equations that form the path.



Total Determinand Coefficient (R^2) = 0,9372

Figurer 2. Regression Coefficient and R^2 of Research Model (Path Analysis)

5. Sobel Test Results

Table 5 below shows the results of the Sobel test which strengthens the hypothesis testing of the mediating role of the retained earnings variable in table 4 before.

Table 5. Sobel Test Results

	Koefisien Path	Sobel Test	P-Value
OCI AR --> SL --> NP	0,4959	3,2881	0,0000
OCI TR --> SL --> NP	0,4330	2,7095	0,0000

The Sobel test results which show the Sobel Test value is above 1.96 and significant at the 5% level, meaning that the path analysis results are supported by the Sobel test results, namely retained earnings are able to act as a mediating variable in the influence of OCI AR on firm value, and also the effect of OCI TR on the value of the company.

Discussion

Effect of Disaggregation of Reclassification of Other Comprehensive Income on Company Value.

This study succeeded in proving that other comprehensive income aggregated into groups that will be reclassified to net income has a positive effect on firm value. This is because these OCI items will be realized, so that the realization of assets (debt) gives rise to real income realized from the difference between the carrying value and the sale value of assets or repayment of debt and is presented as part of net profit, and cash realization has operational cash flows flowing. Net income and operating cash flow affect stock prices, as is the theory of the information content of earnings by Ball and Brown (1968). OCI AR of the current period in the future period will become net profit and operating cash flow, so that it will affect the company's value. These results are in line with Kusuma Unmer's findings, that modifications to ROA and ROE based on OCI will be reclassified (OCI AR) have a significant positive effect on firm value.

This study failed to prove other comprehensive income that is aggregated into groups that will not be reclassified to net income has a positive effect on firm value. OCI will not be reclassified (OCI TR) items have no effect on company value, because these OCI items in the next period are still presented as OCI, assets and debt are not realized so that no realized income affects net income and operating cash flow. The OCI TR item is only an adjustment to the fair value of assets and debt, the value of which is not related to the company's performance, so it does not affect the share price and company value. This result is in line with Kusuma (2021a)'s findings that ROA modification involving OCITR and Kusuma, Assih, et al., (2021) that ROE modification has no effect on stock returns.

OCI items that are relatively frequently presented in groups that will be reclassified to net income include adjustments to the fair value of financial assets in the available-for-sale category, cash flow hedges and translation of financial statements of business units abroad. Available-for-sale financial assets, as the name implies "available-for-sale" means held for short-term ownership, presented as current assets, and the objective is indeed to obtain capital gains from changes in share prices. Therefore, its realization does not require a long time. The period t of the fair value adjustment is the unrealized income presented at OCI, the period after which in the nearest future it has been realized and becomes part of net income. Cash flow hedging contracts are generally not very long-lived. Realization of receipt of settlement of receivables or payment of debt with hedging contracts does not require a long time from the presentation of the adjustments in the OCI. Likewise the translation of the financial statements of business units abroad.

Effect of Retained Earnings on Firm Value

This study succeeded in proving that retained earnings have a positive effect on firm value. This is because retained earnings are the accumulated profits of the past period. Retained earnings show a track record of the previous period's operational performance. Dividends as investment returns are influenced by the value of retained earnings, because dividends are taken from retained earnings. The profit balance is more robust in predicting the company's ability to pay dividends than the current period's net profit, because it could be that in the current period the net profit is small or even a loss, the company continues to pay dividends taken from retained earnings in order to maintain a reputation for consistency in dividend payments which makes people interested in buying shares so that share price and company value remained high. The results of this study are in line with the findings of Hermuningsih et al., (2022), Ball et al (2020), Yemi & Seriki (2018), and Javed & Shah (2015).

OCI items that are often presented in groups that will not be reclassified to net income are actuarial differences in defined benefit plan liabilities and revaluations of fixed assets and intangible assets. The age of these two items as unrealized income is longer than other OCI items such as trading, hedging or financial statement translation. OCI items actuarial differences in defined benefit plan liabilities are realized when the employees have retired and the realized defined benefit obligation is paid to them. This requires a very long time so that the realization of this OCI item is unlikely in the near future. It will be presented in a longer time as OCI and it is not yet time to be presented in net income. In its position as a nominal account, it will be closed in equity in the accumulated OCI account alongside retained earnings. Likewise for OCI items revaluation of fixed assets and intangible assets. This item will be realized if the asset is sold, and this will also take a long time, because selling fixed assets or intangible assets is not the main operational activity, so it is rarely done.

Mediation of Retained Earnings in the Effect of Disaggregation of Reclassification of Other Comprehensive Income on Company Value

This study succeeded in proving that retained earnings mediate the effect of other comprehensive income which is aggregated into groups that will be reclassified to net income and groups that will not be reclassified to net income on company value. OCI TR will not be realized in the nearest period from the presentation of the financial statements. Retained earnings contain accumulated net income since the company was founded until the most recent period. Realization of assets or debts whose fair value adjustments are reported as part of the OCI TR, the realization of which gives rise to income (net profit) whose timing and amount are unknown, this ambiguity can be overcome in the value of retained earnings, because the income from the realization of OCI TR will definitely be included in retained earnings. Retained earnings for the current period, which contain profits from the realization of OCI TR for the past period, and OCI TR for the current period, which are realized at some point, will eventually become part of retained earnings.

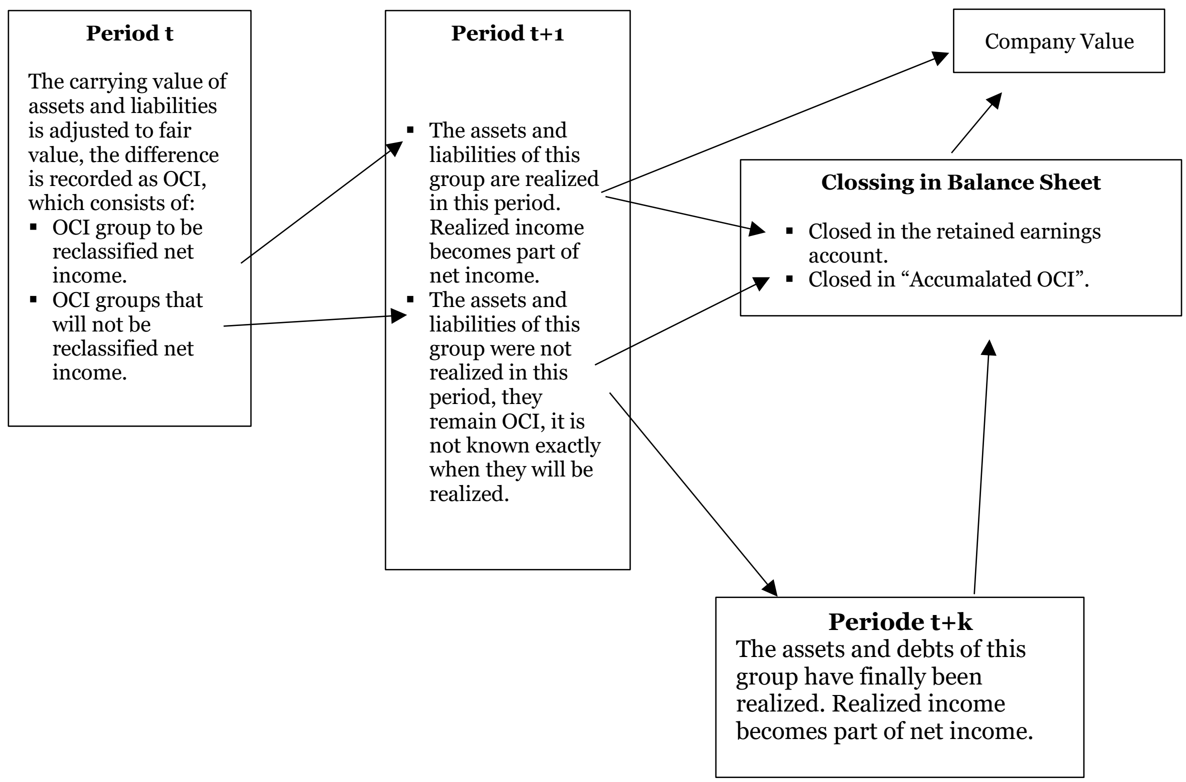


Figure 3. Position of retained earnings in mediating OCI with company value.

CONCLUSION

The purpose of this study was to examine the effect of (1) OCI will be reclassified (OCI AR) and OCI will not be reclassified (OCI TR) on retained earnings, (2) the effect of OCI AR and OCI TR on firm value, and (3) mediation of retained earnings in the effect of OCI AR and OCI TR on firm value. The results showed that OCI AR had a positive effect on retained earnings and firm value, while OCI TR had no effect on firm value, but OCI TR had a positive effect on retained earnings. OCI AR has a significant positive effect on company value because OCI AR has the potential to be realized in the coming period and realized income will become part of net income and cash flow, so that share prices are affected. OCI TR has no effect on firm value because OCI TR remains unrealized and remains OCI until the next period. The market views it as unrealized income which is only a fair value adjustment and has nothing to do with net income, cash flow and ability to pay dividends. This is in line with the evidence provided by Kusuma and Agustin (2023) that OCI AR has a significant positive effect on dividends and OCI TR has no effect on dividends. Likewise, Kusuma JKP Unmer's research concluded that comprehensive income which contains components of net income and OCI AR has a significant positive effect on firm value, and has no effect when comprehensive income includes OCI TR components.

OCI AR and OCI TR have an effect on retained earnings, because both are nominal accounts that are part of the total comprehensive income presented in the income statement. All nominal accounts presented in the income statement (net income, OCI is reclassified to net income and OCI will not be reclassified to net income) will eventually be closed to retained earnings. OCI TR has no effect on firm value, but when mediated by retained earnings, the coefficient of indirect effect through retained earnings is higher and significant than the direct effect of OCI TR on firm value. Retained earnings are able to mediate the effect of OCI TR on firm value, this is because retained earnings are the accumulated value of operational performance between periods where dividends are paid by debiting retained earnings. Investors view retained earnings as reflecting the company's ability to provide future investment returns, because it is a collection of the previous period's comprehensive income.

So far, we view that OCI, especially items that will not be reclassified to net income, has less relevance value because assets or debt will not be realized in the nearest period, so there will be no income from the realization of these assets or debt, and it is still presented as OCI. by its unrealized nature it has nothing to do with cash flow and net income. However, this study proves that retained earnings are able to play a role as mediating the effect of these OCI items on firm value, meaning that the market does not use OCI TR information independently or stand alone as OCI TR or stand alone on its partial items, but the market views that group OCI items this is part of retained earnings, which will one day be realized and accommodated in retained earnings (a future period perspective), or the value of current retained earnings in which there is profit from the realization of OCI TR items. This is a characteristic of retained earnings, as an account of the company's accumulated profits since its inception until now, including profits from the realization of assets and debts whose fair value adjustments have been presented as part of OCI TR. This research proves this, and also strengthens the evidence of the role of retained earnings in overcoming theoretical and practical problems related to the application of fair value accounting. The findings of this study are useful for the academic world to fill in the gaps in the financial accounting literature in the form of empirical evidence of the relevance value of OCI TR and the mediating role of retained earnings in strengthening the value of OCI TR relevance. The findings of this study are also useful for investors as input for making investment decisions regarding the use of OCI TR information and retained earnings.

The limitation of this study is to test retained earnings at aggregate value so that the impact of OCI presentation on the disaggregation of retained earnings on information that has been determined for use and which has not been determined for use is not yet known, the next researcher is advised to study this area. Likewise regarding the influence of the type of industry, this study only classifies into two sample groups, namely financial and non-financial companies. Future researchers are advised to examine the effect of industry type on the nine industrial sectors in the IDX classification, in order to further clarify the impact of industry type on retained earnings and firm value, especially regarding the relevance value of OCI disaggregation.

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