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The Effect of Book-Tax Diffferences, Cash Flow Volatility, and Corporate Governance on Earning Quality

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Abstract:- This study was conducted to review the role of profit as a basis for decision making by examine the effect of book-tax differences, cash flow volatility, and corporate governance on earning quality. This study was carried out in Indonesian stock exchange and takes quantitative approach. The type of data used in this study were secondary data, panel data in time series form from 2014 to 2018. The sample selection in this study was purposive sampling, so that 35 observation were obtained. Data were analyzed using absolute value difference test method that was processed with statistical packages for the social sciences (SPSS). The result showed that: (1) Book-tax differences had no effect on earning quality with earning persistence atribute. (2) corporate governance does not moderate on relation between book-tax differences and earning persistence. (3) cash flow volatility had positive effect on earning quality with earning persistence atribute. (4) corporate governance weaken on positive effect between cash flow volatility and earning persistence.

Keywords-: *Book-Tax Difference; Temporary Differences; Cash Flow Volatility; Corporate Governance; Earning Quality; And Earning Persistence.*

I. INTRODUCTION

The main focus of attention by users of financial statements is profit. The profit are expected to represent overall performance of a company. Financial performance is one of the factors that shows the effectiveness and efficiency of an organization to achieve its goals. Profits obtained are not only seen from the size of the company but also from the company's ability to maintain profits.

Reference [32] explained that investors were naive, only based on aggregate profit. Also, investors assumed that high profits would reflect good company conditions. Often earnings in financial reports are used to attract potential investors by manipulating profits so they can influence investors decisions, resulting in misleading information to users of financial statements. Profits that do not show actual information about management performance can mislead users of financial statements so that it will have an impact on company quality and company value.

Information about reported earnings also became basis for decision making in determining the amount of tax imposition. There is the old adage "no one likes to pay taxes", but we all agree that taxes are very important and beneficial to the public interest. Cases that have brought public attention to tax evasion were some important issues that are often discussed in Indonesia (Asian Agri Group, Bakrie Group, Makindo and Ramayana Group). The company commits tax evasion in order to improve their performance, which were measure by achieving profit. Reference [38] showed that the importance of achieving maximum profit for the survival of a company by committing wrong actions.

The phenomenon on PT. Sentul City, Tbk showed that company significantly gains or loses large proportion of its earnings in a short period of time. Its made the company cannot guarantee their earnings persistence cause net profit was decreased throughout 2014 from 605,25 to 40,79 billion.

Quality earnings are earnings that can reflect *sustainable earnings* in the future as an indicator of *future earnings* which is determined by the accrual component and its cash flow, which we know as earnings persistence [8][13]. Earnings persistence has an element of predictive value [20]. Thus, earnings persistence is often used as a measure of earnings quality. Profits that are not too volatile were the characteristics of persistent earnings [37] and show sustainability [27] and the quality of earnings reported by the company are good.

Related to its importance of earnings persistence for users of financial statements, it is also important to perform analysis of the attributes that can influence the persistence of a profit, such as, book-tax differences [41][10], cash flow volatility [22] [35] and corporate governance [16].

Different standard in the preparation of the earning calculations would lead to differences in the calculation of earnings (loss) of the company and also would cause the differentiation of amount earnings before tax (commercial profit) with a taxable profit (taxable profit) [4], this referred to as book-tax differences. Book-tax differences had an impact on corporate earnings in the future and able to create opportunities for companies to conduct earnings management practices related to tax evasion

[40]. The large tax burden will have an impact on earnings, especially differences in accounting and taxation rules based on their respective principles, made the role of managers as company managers tend to take actions that can change the obtained earning by taking advantage from the gap between accounting and taxation rules.

Reference [42] stated that the company earnings and cash flow [31] can be used to predict the company future performance. Cash flow volatility were the degree of cash flow distribution or the index of cash flow company distribution [8] and fluctuates from year to year. Stable cash flow are those that has little volatility, this are needed to measure the persistence of company earnings. High volatility indicates low earnings persistence, it will be difficult to predict future cash flows if the cash flow fluctuates sharply. High cash flow volatility indicates high uncertainty in the company's operating environment. If this happens, cash flow will fluctuate sharply and earnings persistence will be lower [11].

The financial reports preparation process always involves the management of the company, while decisions and policies taken from the information in financial reports especially earnings by investors, will determine the company earnings quality. Reference [5] stated that investors in making their decisions could use concept of corporate governance as a consideration. It is equally important for investors and potential investors using profit as benchmark, also using corporate governance reports as consideration.

The information differences between shareholders and company management are sometimes became trigger for the realization of expectations for high earnings quality. Through corporate governance, it is expected the company value will be assessed as good by investors [34]. The relationship between corporate governance issues and earnings persistence as a measure of earnings quality that are still rational and important to do.

This study is referenced from [35], which provides evidence that cash flow volatility has no effect on earnings persistence at the company and industry levels, and discretionary accruals and non-discretionary accruals have no effect on earnings persistence at the firm level, but non-discretionary accruals effect on earnings persistence at the industrial level.

The difference between this study and previous study are this study includes the book-tax differences and corporate governance variables. Researchers include book-tax differences because there are many differences between tax regulations and Indonesian GAAP that cause permanent and temporary differences. However in this study, the researcher only used temporary differences because it can cause the amount of tax that could be increased or decreased in the future, which is related to the accrual process, so that it can be used for assessing the quality of future earnings. Furthermore, the researcher also includes corporate governance as moderating variable because in practice, the implementation of corporate governance were carried out to regulate and control the company so that management does not carry out activities that deviate from the stakeholders eagerness.

II. LITERATURE REVIEW

A. Agency Theory

Agency theory is based from the idea that there is a separation between ownership and control of the company, separation of risk bearers, decision making and control functions [19]. It can be said that the principal delegates a mandate to the agent to perform tasks according to the agreed work contract. Reference [19] explains the importance of handing over the company's operations from the owner (principals) to other parties who have the ability to better manage the company (agents).

The separation of authority between agent and principal could created a conflict of interest. Agency problems arise as a result from the abundance of information held by managers as agents than by owners as principals. This conflict allows the manager to exploit or take over existing business resources, if the agent were not given an equivalent return or service from principal [25].

B. Earnings Quality

One of the goals from presenting financial statements were it is usefulness in making economic or investment decisions [36]. The eight measures of earnings quality consist of accrual quality, persistence, predictability, smoothness, value relevance, earnings in formativeness, timelines and conservatism [21]. Earnings persistence were often seen as a measure of earnings quality [9]. So that sustainable or persistent earnings are the earning that has better quality [21]. Earnings quality were often associated with earnings management, because of earnings that have undergone manipulation will reduce its quality. Management often does this to attract potential investors by manipulating profits in such way.

C. Earnings Persistence

Reference [28] explains that earnings persistence is a revision of future earnings which is determined by current earnings. The amount of the revision indicates the level of earnings persistence. Persistent earnings, namely when the current year earnings became a guide for future profits [8] [6]. Profits that have a high level of persistence can be used to predict future earnings.

Persistent earnings are earnings that has ability as an indicator of future earnings generated by company repeatedly [7]. Persistent earnings tend not to fluctuate and reflect the future sustainability of earnings and are sustainable for a long time. Earnings persistence is important, because its related to the interests of investors in company performance, which is reflected in future earnings [12].

D. Book-Tax Differences

Book-tax differences is difference in the amount of profit calculated on the basis of accounting with profit calculated in accordance with tax regulations

[14]. Meanwhile, according to tax laws, financial accounting and tax accounting have the same objective, which is to determine the business operations results by measuring and recognizing profit and expenses. The time difference in the recognition of profit and expenses in the tax laws and regulations and Indonesian GAAP results in a different accounting profit from taxable profit.

Fiscal reconciliation made at the end of the accounting period, causes a difference between accounting profit and taxable profit which is called a temporary difference. The differences raises the term book-tax differences in the analysis of taxation [37]. This difference occurs because there are profit or expense recognized in the previous accounting period or in the next accounting period, but commercially, the profit or expense is recognized in the relevant accounting period. Temporary differences in commercial financial statements are reflected in the deferred tax asset account or deferred tax liability.

E. Cash Flow Volatility

The cash flow statement provides relevant information about cash receipts and disbursements of an activity on operating, financing and investing activities of a company during an accounting period, in a format that records the balance of the beginning and ending balances [15]. Reference [18] explains that cash flow volatility is a variant of cash flow from annual operating activities with an asset scale. Cash flow volatility is measured by the standard deviation of cash flows originating from operating activities divided by total assets. Operating cash flow volatility describes company operational activities which are company main activities to generate profit. High cash flow volatility causes low earnings persistence. Due to the high uncertainty in the operating environment indicated by the volatility of cash flows, it makes future earnings uncertain as well [23], and vice versa.

F. Corporate Governance

Corporate governance arises because there are separation between ownership and control of the company, or often known as agency problems. Corporate governance are series of structured processes used to manage and direct or lead a business and corporate ventures with the aim of increasing corporate values and business continuity.

According to the Forum for Corporate Governance in Indonesia (2001) defines corporate governance as a set of regulations governing the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders related to their rights and obligations, or in other words a system that regulates and controls the company. Based on this definition, it can be concluded that corporate governance is a system, process, and regulations that govern the relationship between various interested parties (stakeholders).

G. Hypotheses Development

Agency theory explained to reduce information asymmetry, managers should provide information to agents. The difference between the accounting profit with the taxable profit were information of earnings quality for users of financial statements. Each end of the year the company is obliged to reconcile fiscal, which the difference between accounting profit to taxable profit is the fiscal correction of accounting profit that causes occurrence temporary differences .

Temporary differences become a way to determine the quality of earnings within the company, because the quality of company earnings is often associated with earnings persistence. Thus, it can be said that the information about the quality earnings can be obtained via book-tax differences. Thus, companies that have temporary differences tend to have non-persistent profits. This condition occurs as a result from reversal on the basis of temporary differences in the future so that the time difference has a negative relationship with earnings persistence.

Reference [10] stated that temporary differences have an effect on earnings persistence. So that the role of temporary differences is able to provide earnings information within the company. However, reference [43] showed that book-tax differences had no effect on earnings persistence.

Based on description above, following hypotheses can be developed:

H1: Book-tax differences affect on earnings persistence.

Agency theory explains that to reduce information asymmetry, the managers who provides information to agents were transparent and accountable company management form. The reduction of information asymmetry makes management transparent, which is one of the applications of corporate governance principles in companies that are believed to be able create good company conditions. According to [17] [21] the application of corporate governance were proven to improve the quality of financial reports and is also able to reduce deviant activities such as the manipulation of the contents of financial statements that do not represent the true value.

Knowing that the company implements the principles of corporate governance will indirectly prevent investors from the earnings management risk that would occur in their company. Similar to quality or persistent earnings, a company that has profits with a good level of persistence can be a reference for investors to the company future performance and sustainability *(going concern)* before deciding to invest in the company. Based on description above, following hypotheses can be developed:

H2: Corporate governance can moderated the effect of book-tax differences on earnings persistence.

Agency theory explains that the agent as the manager of the company is given the authority to manage the company in order to bring benefits to the principal and in its management hoped can reduce information asymmetry between the two parties. In financial reports, cash flows volatility are important information for users of financial statements.

It can be observed that if there is high uncertainty in the operating environment, the volatility of operating cash flows

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will show a high level as well. With high uncertainty and high cash flow volatility, the persistence of earnings will be lower or the accuracy of the profit would be more questionable. This is supported by the statement that stable cash flow information, which has little volatility, is needed to measure earnings persistence [11] [22]. However, research from [35] showed that cash flow volatility has no effect on earnings persistence at the company and industry levels. Based on description above, following hypotheses can be developed:

H3: Cash flow volatility affect on earnings persistence.

Agency theory described shareholders as principal and as agent management. In his explanation, to reduce the occurrence of information asymmetry, manager should provides information to agents as a form of transparency in company management. Transparency was one from the principles of corporate governance implementation in company that can create the better company conditions.

Improving the quality of financial reports and reducing deviant activities, such as the manipulation of the contents of financial statements that do not describe the true value are evidence from corporate governance adoption [17] [21]. Policies and regulations were contained in corporate governance can be used to control the manager actions or the managers from that the quality information produced.

Basically, corporate governance requires better transparency for all users of financial reports which, if successfully implemented, will automatically improve company performance. If we related to the level of operational cash flow volatility, it is expected to moderate earnings persistence in companies. Based on description above, following hypotheses can be developed:

H4: Corporate governance can moderated the effect of cash flow volatility on earnings persistence.

This study examines and concludes the effect book-tax differences and cash flow volatility on earnings quality with earnings persistence attribute. Corporate governance as a moderating variable. The conceptual framework to help understand this research can be seen in Figure 1 below.

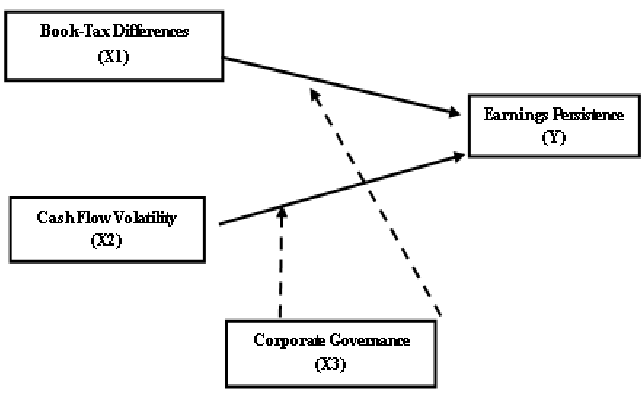

Fig 1:- Conceptual Framework

III. RESEARCH METHODS

The research design used a quantitative type. Basically, quantitative research were described the relationship and influence between book-tax differences, cash flow volatility (independent variables), earnings quality (dependent variable), and *corporate governance* (moderating variable).

This research uses annual financial report data for the last 5 years, from 2014 to 2018 in the research samples companies. Financial report data is obtained through the indonesian stock exchange, the official website of the related company, as well as reports from the Indonesian Institute for Corporate Governance (IICG). The sample selection in this study was purposive sampling, so that 35 company observations during the observation year.

A. *Operationalization of Variables*

Book-tax differences in this study refers to temporary differences to measure tax-deferred expense or the differences between accounting income and taxable income. The variable indicator based on this measurement is in accordance with that done by [29] [33] [41] [43] are as follows .

$$\textbf{BTD it} = \frac{\textbf{DTE it}}{\textbf{TA it-1}}$$

Information:
BTD it :- Difference between accounting profit and taxable profit
DTE it :- Deferred tax expense company in year t
TA it :- Total Assets in year t-1

Cash flow volatility is the degree of distribution of cash flow or the distribution index of the company's cash flow distribution [8]. Measurement of cash flow volatility in this study refers to [32] [8] [22] which state that the value is obtained from the standard deviation of operating cash flow divided by total assets as follows.

$$\textbf{VAK = CFO t / TA t}$$

Information:
VAK :- Cash Flow Volatility
CFO t :- Standard deviation of the company operating cash flow at year t
TA t :- Total assets year t

Corporate governance variable in this study refers to the index developed by the Indonesian Institute of Corporate Governance (IICG) in the form of the Corporate Governance Perception Index (CGPI). The CGPI ranking is designed into three categories based on the level of trustworthiness which can be explained according to the corporate governance application score, such as very reliable (85-100) , most trusted (70-84), and quite trustworthy (55-69). The CGPI assessment indicator table can be seen in Table 1 below.

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Parameter	Assessment Percentage
Governance Structure	34,73 %
Governance Process	31,23 %
Governance Result	33,14 %

Table 1 :- CGPI Assessment Indicator
Source :- CGPI Report, 2018

This study using attribute earning persistence from earnings quality. Reference [28] explained earnings persistence is revision of future earnings that is determined by the current year's profits. The persistence of earnings in this study was measured using the ratio of profit next year to average total assets as determined by [37] [43] as follows.

$$\text{Earnings persistence} = \frac{\text{Net income before tax t+1}}{\text{Average total assets}}$$

B. Data Analysis Technique

The research problem will be analyzed quantitatively using the IBM SPSS program. The data analysis techniques used in this study are the classical assumption test and the absolute value difference test. This model will test the effect of moderation with the absolute difference of the variables in the model with the following equation model.

$$Y = a + b1X1 + b2X2 + b3\ |X1 – X3| + |X2 – X3| + e$$

Information:
Y :- Earnings Persistence
a :- Constants
b :- Regression Coefficient
X1 :- Tax Profit Difference Variable
X2 :- Cash Flow Volatility Variable
X3 :- Variable of *Corporate Governance*
X1 - X3 :- Interaction measured by the absolute value of the difference between book-tax differences and corporate governance
X2 - X3 :- Interactions measured by absolute differences between cash flow volatility and corporate governance

IV. RESULTS

A. Descriptive Statistics

Descriptive statistical analysis is used to determine the description of the research variables, such as book-tax differences (PLP), cash flow volatility (VAK), corporate governance (CG) and earnings persistence (PrL).

Var.	N	Min.	Max.	Average	Std. Dev.
PrL	35	-0,04072	0,30084	0,05368	0,07757
PLP	35	-0,00619	0,01016	-0,00026	0,00243
VAK	35	0,01615	0,17609	0.05576	0,04635
CG	35	81,70	94,86	87,68	3,30321

Table 2 :- Descriptive Statistic
Source :- Processed Data, 2020

The following descriptive data in Table 2 that has been processed can be seen as follows.

- Earnings persistence has minimum value of -0,04072 and maximum value of 0,30084 from total items assessed. Also, from descriptive test results shows that earnings persistence has an average value of 0,05368 with a standard deviation of 0,07757 from the average value.
- Book-tax differences has minimum value of -0,00619 and maximum value of 0,01016 from total items assessed. Also, from descriptive test results shows that book-tax differences has an average value of -0,00026 with a standard deviation of 0,00243 from the average value.
- Cash flow volatility has a minimum value of 0,01615 and maximum value of 0,17609 from total items assessed. Also, from descriptive test results shows that cash flow volatility has an average value of 0,05576 with a standard deviation of 0,04635 from the average value.
- Corporate governance variable has minimum value of 81,70 and maximum value of 94,86 from total items assessed. Also, from descriptive test results shows that corporate governance variable has an average value of 87,68 with a standard deviation of 3,30321 from the average value.

B. Classical Assumption Test

➢ *Normality Test*

Using Kolmogorov-Smirnov test as normality test and results are presented in Table 3.

	Kolmogorov-Smirnov Z	*Asymp. Sig*	α	Information
Unstandardized Residual	1,022	0 , 247	0,05	Normally Distributed

Table 3 :- Normality Test Results
Source :- Processed Data, 2020

This is shown in *Asymp. Sig* on the model is 0,247. This value is greater than 0,05 (> 0,05). Therefore, it can be concluded that the data analyzed in this model is normally distributed.

➢ *Heteroscedasticity Test*

The results of heteroscedasticity testing on the research data are shown in Figure 2 as follows.

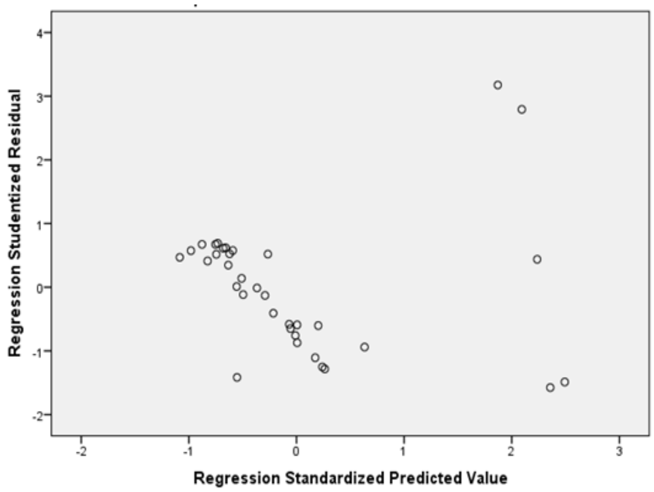

Fig 2 :- Heteroscedasticity Test Results
Source :- Processed Data, 2020

Figure 2 shows that the dots spread randomly and spread either above or below the number 0 (zero) on the Y axis. It can be concluded that heteroscedasticity did not occur in the regression model.

➢ *Autocorrelation Test*

	Durbin-Watson	Information
Unstandardized Residual	1,889	autocorrelation did not occur, positive or negative

Table 4 :- Autocorrelation Test Results
Source :- Processed Data, 2020

Tabel 4 shows that Durbin- Watson value of 1,889 in the regression model built, namely, dU < d < 4 -dU. it can be concluded that there are no autocorrelation symptoms or problems in the research model.

➢ *Multicolinearity Test*

Using Tolerance and VIF (Variance Inflation Factor) values as multicollinearity test and results are presented in Table 5.

Variable	Tolerance	VIF	Information
PLP	0,479	2,089	Multicollinearity did not occur
VAK	0,229	4,362	Multicollinearity did not occur
CG	0,367	2,727	Multicollinearity did not occur

Table 5 :- Multicolinearity Test Results
Source :- Processed Data, 2020

Table 5 shows that each independent and moderating variable has Tolerance value greater than 0,1 (> 0,1) and VIF value from each variable smaller than 10 (< 10). This indicates that there are no correlation or multicollinearity symptoms did not occur between independent and moderating variables in the regression model.

C. Cofficient of Determination

	R	R *Square*	*Adjusted* R *Square*
Model	0.854	0.730	0.683

Table 6 :- Cofficient of Determination Test Results
Source :- Processed Data, 2020

Table 6 shows that coefficient of determination obtained by using adjusted determination coefficient (adjusted R Square) in the research model by 0,683. This implies that in research model, independent variables (book-tax differences and cash flow volatility) supported by moderating variable (corporate governance) can predict the dependent variable (earnings persistence) by providing the information needed to predict as much as 68,3%. In other words, there are 31,7% (100% - 68.3%) other things that affect earnings persistence.

D. Absolute Value Difference Test and t Test

The test is used to determine whether or not each independent variable has an effect on the dependent variable individually and moderating variable in relation with independent variable and dependent variable.

Model	*Unstandardized Coefficients*		*Standardized Coefficients*	t	sig
	B	*Std. Error*	*Beta*		
(Constant)	0,107	0,019		5,726	0,000
Z - PLP	-0,015	0,011	-0,199	-1,424	0.165
Z - VAK	0,113	0,016	1,456	7,221	0,000
Z - CG	0,053	0,012	0,690	4,326	0,000
AbsPLP_CG	0,006	0,013	0,084	0.468	0.644
AbsVAK_CG	-0,040	0,014	-0,538	-2,855	0.008

Table 7:- Absolute Value Difference and t Test Results
Source :- Processed Data, 2020

Based on the test results in table 7, the explanation of the absolute value difference test and individual statistical tests carried out is as follows.

- Book-tax difference has no effect on earnings persistence. Seeing the results, the first hypothesis (H1) is rejected.
- Corporate governance did not moderate the effect of book-tax difference on earnings persistence. Seeing the results, the secoond hypothesis (H2) is rejected.
- Cash flow volatility affect on earnings persistence. Seeing the results, the third hypothesis (H3) is accepted.
- Corporate governance moderates the effect of cash flow volatility on earnings persistence. Seeing the results, the fourth hypothesis (H4) is accepted.

V. DISCUSSION

A. The Effect of Book-Tax Differences on Earnings Persistence

The variable of book-tax differences has a t-value of -1,424 (smaller than t-table amounted of 2,036) with a significant level of 0,165 which is greater than the significance level of 0,05 (5%). This shows that the book-tax differences did not affect the earnings persistence. Therefore, this result did not supports the first hypothesis (H1). This result are in line with the research of [30] [39] [41] [43].

Book-tax differences as proxied by temporary differences had no effect on earnings persistence, it means the size of recognition deferred tax will not cause a decrease or increase in profit . This can occur because of significant difference with the profit generated by the company thus allowing for temporary differences did not have a significant effect because number is not too large. In theory, temporary differences will result in deferred tax in the form of deferred tax assets and deferred tax liabilities in the future.

In *agency* theory, the expenses and benefits of deferred tax will regulate the proportion of rights and obligations of each party while still taking into account the overall benefits. The effect of future recoveries and futute payables, which are owned by temporary differences results in the size of the temporary differences, did not affect the persistence of earnings. Due to this effect, the reduction or addition of income tax can be eliminated through the addition or reduction of income tax.

B. The Effect of Book-Tax Differences on Earnings Persistence Moderated by Corporate Governence

The variable of book-tax differences with corporate governance as moderator variable has a t-value of -0,468 (smaller than t-table amounted of 2,036) with a significant level of 0,644 which is greater than the significance level of 0,05 (5%). This shows that the corporate governance did not moderate the effect of book-tax differences on earnings persistence. Therefore, this result did not supports the second hypothesis (H2). This result are in line with the research of [41] [3], but not in line with [16] who found that corporate governance strengthens the effect of book-tax differences on earnings persistence.

Corporate governance has no effect in moderating the relationship between book-tax difference and earnings persistence in this study because managers have behaved in accordance with the interests of the owners, so that managers did not take deviant actions by exploiting loopholes to manipulate their profits by using the amount of temporary differences (deferred tax expense) which can reduce earnings quality.

On research conducted by [2] [3] found that there are still low shares owned by management who take part in decision making. Most owners of shares companies in Indonesia still dominated by foreigners so that managers manage company just to get an intensive from the owner, according to the contract agreement between the two parties so that the managers just managing company for the benefit of the owners. Thus, deviant behavior are very lacking because indirectly the quality of the company earnings would decline. Meanwhile, research conducted by [41] found that one of the elements of corporate governance, the high proportion of the independent board commissioners was carried out only to comply with regulations, as well as the existence of an audit committee in a company that was not intended to enforce good corporate governance, so that corporate governance had no effect in moderating the relationship between book-tax difference on earnings persistence as in this study.

C. The Effect of Cash Flow Volatility on Earnings Persistence

The variable of cash flow volatility has a t-value of 7,221 (greater than t-table amounted of 2,036) with a significant level of 0,000 which is less than the significance level of 0,05 (5%). This shows that the cash flow volatility has a significant positive effect on earnings persistence. Therefore, this result supports the third hypothesis (H3). This result are in line with the research of [13] [1] [26] but not in line with [11] [22], who found that cash flow volatility had a significant negative effect on earnings persistence.

The positive effect shows that the higher the cash flow volatility, the more earnings persistence increases. This shows that the size of cash flow volatility does not affect earnings persistence, because earnings generally contain a transitory component. The positive effects that occurs during the years of observation, because the company that are the sample gaining more cash than spending it. In other words, the company had cash to perform operations back without having to borrow or find capital to other parties. If the company operations are good, it would gain good profits too. It shows that most of the company that are the sample can perform good company operations to gain profits, especially in maintaining and increasing profits.

In financial reports, the volatility of cash flows is important information for users of financial statements. The value contained in operating cash flows for a period reflects the value of profit in the cash method. Cash flows that fluctuate sharply will cause difficulty in predicting future cash flows. If the cash flow fluctuation is high, it will result in high uncertainty that occurs in the operating environment, resulting in low earnings persistence and the inability to predict future earnings. *Agency* theory explains that the agent as the manager of the company is given the authority to manage the company in order to bring benefits to the principal and in its management are hoped that information asymmetry would reduced between the two parties.

D. The Effect of Cash Flow Volatility on Earnings Persistence Moderated by Corporate Governence

The variable of cash flow volatility with corporate governance as moderator variable has a t-value of -2,885 (smaller than t-table amounted of 2,036) with a significant level of 0,008 which is less than the significance level of 0,05 (5%). This shows that the corporate governance moderate the effect of cash flow volatility on earnings persistence by weaken the positive effect between them. Its indicating that the greater value of corporate governance, getting weaker the positive effect of cash flow volatility on earnings persistence, resulting in lower uncertainty that occurs in the company operating environment, so that cash flow volatility is able to predict earnings in the coming period. Therefore, this result supports the fourth hypothesis (H4). This result are not in line with the research of [24] who found that corporate governance did not moderate the effect of cash flow on earnings persistence.

The influence of corporate governance in this study because the elements of corporate governance that involves internal and external factors considered by IICG has been implemented in its entirely, so that the earnings persistence company are low goes hand in hand with increased companiy earnings quality.

Cash flow is a transaction that cannot be manipulated. By implementing corporate governance, the positive relationship between cash flow volatility and earnings persistence in this study can be weakened. The negative influence of corporate governance are in accordance with the agency theory. Its to reduce agency problems requires agency cost, one of them is by implementing effective corporate governance.

VI. CONCLUSION

Based on analysis and discussion of the research, then some conclusion can be drawn as follows.

- The book-tax differences which is proxied by temporary differences did not affect earnings persistence. Its shows that the size of the deferred tax owned by the company did not affect future earnings predictions. Other than, because of temporary differences that occur due to differences in the rules between Indonesian GAAP and tax regulations, also there are significant difference with the profits gained by the company so that the temporary differences did not have a significant effect because the amount is not too large.
- Corporate governance neither strengthen nor weaken the effect of book-tax differences on earnings persistence. Its shows despite the manager as agent has greater information than the principal, the manager did not use that information to take advantage and take opportunities from accounting policies to manipulate profits by using the amount of temporary differences (deferred tax expense), because manager as agent works in accordance with the contract to manage company for the benefit of the owner.
- Cash flow volatility has a positive effect on earnings persistence. This shows that earnings persistence is not influenced by the size of the cash flow volatility, because earnings generally contain a transitory component. Then, a positive effect also occurs because during the year of observation, the company that are the sample gain more cash than they spent. In other words, the company had cash to carry out its operations again without had to borrow or seek capital from other parties. The value contained in operating cash flows for a period reflects the value of profit in the cash method that can predict future of cash flows.
- Corporate governance weakens the positive effect of cash flow volatility on earnings persistence. This shows that the inclusion of corporate governance as moderating variable in the positive relationship between cash flow volatility on earnings persistence will result in low uncertainty that occurs in the company-operating environment so that cash flow volatility are able to predict earnings in future periods. implementation of effective corporate governance can hold up performance manipulating activities, especially in terms of cash flow transactions, so that financial information is presented in full disclosure.

This study has limitations, researcher discusses more about the company internal variables, so that the results of the analysis obtained by researchers based only on company data regardless of conditions outside the company. In addition, the sample in this study has limitations because there are still few companies that voluntarily assess their corporate governance index.

Based on the conclusions and limitations of this study, the suggestion that can be given for further research are its better to add company external variables such as market concentration, economic conditions, and investor risk preferences which also affect earnings quality of the company. Furthermore, researchers should use earnings quality attributes apart from earnings persistence, because investors also pay attention to other earnings quality attributes in making decisions.

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