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The Effect of the Quality of Islamic Financial Reporting on Investor Investment Decisions

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ABSTRACT

How does the quality of Islamic financial reporting affect investment decisions, in running a company it can be ensured that there are several goals that both management and owners want to achieve to attract the attention of investors. This research is a type of quantitative research using descriptive statistical methods and simple linear regression for hypothesis testing, Constanta (α) = 1.374 means that if the quality of presentation of Islamic financial statements is constant or fixed, then the decision in investment is 1.374. Regression direction coefficient / β (X) = 0.599 (positive value) means that if the quality of presentation of Islamic financial statements increases by 1 (unit), then the investment decision will increase by 0.599. The application of Islamic accounting in companies plays an important role in maintaining financial integrity and meeting the requirements set by Islamic principles.

Quality, Islamic Finance, Investment Decisions

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INTRODUCTION

The development of the business world in Indonesia is currently experiencing rapid growth, as evidenced by the increasing number of new entrepreneurs and companies emerging across various industries. In operating a company, both management and owners undoubtedly have several objectives they wish to achieve. One primary objective is to obtain optimal profits from ongoing business activities. Every business owner expects a return of capital, followed by capital growth that becomes a new investment to support company prosperity and provide benefits for owners and employees alike. Business owners also expect their companies to operate sustainably in the future, continue to grow, and offer promising career prospects (Muhammaddin, 2024).

Islamic accounting has become an increasingly important topic in the global business context. The principles of Islamic accounting are based on Islamic law governing financial and business transactions. These principles emphasize justice, transparency, and sustainability in business activities. Along

with increasing awareness of Sharia values, Islamic accounting has become a significant field in modern business practices. Islamic accounting refers to accounting practices that comply with Islamic Sharia principles, including the prohibition of *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and *haram* activities (Andika & Olii, 2023).

The implementation of Islamic accounting in companies plays an important role in maintaining financial integrity and meeting the requirements set by Sharia principles. In recent years, many companies in both financial and non-financial sectors have adopted Islamic accounting practices to benefit from a growing market and enhance their reputation (Harahap & Zenabia, 2024).

AAOIFI (1998:24) as cited in Harahap (2001:6) states that contemporary accounting objectives should be examined, accepted if they align with Islamic Sharia, and rejected if they contradict it. Similarly, Ahmed (1990) as cited in Adnan (2005:89) states that the Islamic approach closely resembles the Western approach regarding the application of accounting conventions and principles. Accounting postulates such as monetary measurement, going concern, and realization; accounting concepts including business entity, objectivity, fairness, consistency, materiality, conservatism, and disclosure; as well as accounting principles such as matching, cost, and dual aspects are all applicable within the Islamic approach.

Financial reporting in Islamic accounting is fundamentally similar to that in conventional accounting. However, the difference lies in the underlying philosophy governing the recording process. In Islamic accounting, financial reporting must comply with Sharia principles, meaning that transactions must be *halal* in nature. The acquisition of fixed assets must be free from *riba*, injustice, *maysir*, *gharar*, and *haram* elements. Most importantly, Islamic accounting principles are fully grounded in the Qur'an, Hadith of the Prophet Muhammad, and the opinions of Islamic scholars.

Islamic accounting involves the identification, recording, classification, and summarization of transactions to produce financial statements useful for decision-making (Sri Nurhayati & Wasilah, 2013). While this definition is similar to conventional accounting, Islamic accounting presents broader information. It includes not only financial data but also company activities that comply with Sharia principles and fulfill social objectives inherent in Islam, such as *zakat* obligations. All accounting activities, from recording to reporting, are inseparable from business ethics, making ethical values highly relevant to Islamic accounting.

According to Fridana and Asandimitra (2020), investment decisions refer to choices made to allocate funds into assets with the expectation of generating

future returns. Based on research gaps in previous studies, several factors influence investment decisions, including financial literacy, overconfidence, herding behavior, risk tolerance, and risk perception. Meanwhile, Nelwan and Tulung (2018) state that investment decisions determine the source and form of financing. Investment decisions are management policies in utilizing company funds in assets expected to generate future benefits.

Companies are required to invest efficiently. An investment is considered efficient if the actual investment level does not deviate from the expected level within a predetermined period. Inefficient investment decisions often result from information asymmetry between stakeholders. Information asymmetry occurs when managers possess more information about the company than shareholders, creating opportunities for managerial misconduct. To mitigate this issue, the quality of financial reporting serves as a key consideration for investors in making appropriate investment decisions, thereby enhancing investment efficiency (Lindary et al., 2022).

Additionally, shorter debt maturity can help reduce information asymmetry. Companies must consider debt maturity when choosing debt as a financing source, as it affects firm value. Shorter maturities allow for better managerial monitoring and supervision.

In this context, understanding the impact of Islamic accounting implementation on firm value is essential. Firm value reflects financial performance, market valuation, and other factors contributing to company growth and sustainability. Previous studies indicate that Islamic accounting implementation can positively impact firm value. However, further research is needed to explore this relationship more deeply, particularly in the current context of continuous development in Islamic accounting practices (Andika & Olii, 2023).

RESEARCH METHODE

This study employs a quantitative research design using descriptive statistics and simple linear regression to test hypotheses. According to Syahrizal and Jailani (2023), quantitative research involves statistical analysis using numerical data. Descriptive methods, as explained by Rony (2023), aim to provide a systematic description containing information and factual data related to research subjects or objects. Descriptive statistics are used to provide an overview of all elements and indicators illustrating the effect of Islamic financial reporting quality on investor investment decisions.

This quantitative approach examines the relationship between the dependent variable (Y) and the independent variable (X). The analysis utilizes descriptive statistics with classifications based on investor decision-making factors.

RESULT AND DISCUSSION

Regression Equation

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.374	5.613		.245	.809
	Kualitas	.599	.092	.811	6.503	.000
a. Dependent Variable: Keputusan						

Based on SPSS output, the regression model is formulated as follows:

$$Y = 1.374 + 0.599X + e$$

This regression equation implies:

The constant value (α) of 1.374 indicates that if the quality of Islamic financial statement presentation remains constant, the investment decision value is 1.374.

The regression coefficient (β) of 0.599 (positive) indicates that a one-unit increase in the quality of Islamic financial reporting increases investment decisions by 0.599 units.

Hypothesis Testing

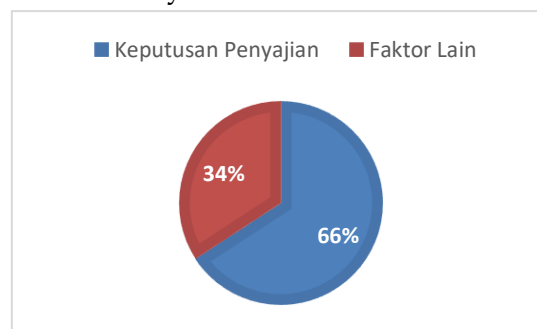
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.374	5.613		.245	.809
	Kualitas	.599	.092	.811	6.503	.000
a. Dependent Variable: Keputusan						

The significance value of 0.000 is less than 0.05, and the calculated t-value (6.503) is greater than the t-table value (1.717). Based on these criteria, it can be concluded that the quality of Islamic financial statement presentation has a positive and significant effect on investment decision-making. This indicates that higher quality Islamic financial reporting leads to increased investor investment decisions.

Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811 ^a	.658	.642	2.934
a. Predictors: (Constant), Kualitas				

The R-square value of 0.658 indicates that the quality of Islamic financial reporting explains 65.8% of the variation in investment decisions, while the remaining 34.2% is influenced by other factors.



CONCLUSION

Based on SPSS version 26 test results, the constant value (α) of 1.374 indicates that if the quality of Islamic financial reporting remains constant, the investment decision value is 1.374. The regression coefficient (β) of 0.599 indicates that a one-unit increase in the quality of Islamic financial reporting increases investment decisions by 0.599 units. The significance value of 0.000 is less than 0.05, and the calculated t-value exceeds the t-table value ($6.503 > 1.717$). Therefore, it can be concluded that the quality of Islamic financial reporting has a positive and significant effect on investment decision-making. The implementation of Islamic accounting plays a vital role in maintaining financial integrity and ensuring compliance with Islamic principles.

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