
ANALYZING THE EFFECT OF FIRM LIQUIDITY ON THE QUALITY OF FINANCIAL REPORTING. AN EMPIRICAL STUDY ON FIRMS LISTED IN THE EGYPTIAN STOCK EXCHANGE.

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ABSTRACT

The study aims to examine the effect of firm's liquidity on the quality of its financial reports. This was inspired by several firms' failure after the recent financial crisis. This effects prevailed even to the capital markets of developing countries as the Egyptian stock exchange. Where Stakeholders lost their faith in the integrity of financial reporting process. These circumstances affected firms differently. That intrigued the researcher to study the effect of firm specific characteristic especially liquidity level on the quality of financial reporting in Egyptian firms. Proper Liquidity level is a sign of the firm ability to cover its short term debt, also a sign for its future solvency and hence better firms' viability. The Study uses simple multiple regression model to investigate this relationship. The sample consists of 32 firms listed in the Egyptian stock exchange for the years 2014 and 2015, where firm liquidity is measured quick ratio. While quality of financial reports is measured by accounting conservatism, measured by MTB. Financial leverage, profitability and company size were used as moderating variables affecting the relationship in question. The relationship tested using regression analysis. The results reveals significant positive relationship between at significance value (0.008) which is lower than the p value. Also the results of correlation indicates significant relationship between firm's liquidity and level of financial leverage and firm productivity respectively The results reveals that liquidity level is a good predictor for quality of financial reporting in Egypt.

Keywords: Liquidity, Financial reporting quality, current ratio, Quick ratio, Accounting conservatism, MTB.

1. INTRODUCTION

Published financial reports are the only means by which outside shareholders and investors can be informed about the performance of the firm. Hence, the importance of quality of financial

reporting increased, especially after the financial crisis and the failure of major firms. As stakeholders everywhere lost their faith in the integrity of financial reporting. Financial reporting should always provide users with reliable information to help them in their decision-making.

But the term financial reporting quality differs across countries and organizations, it depends on the purpose for which the financial information is to be used. (Dechow et al., 2010; Johnas and Blanchet, 2000;) defined it as the level at which the financial reports refer honestly to firms' economic conditions during a specific period of time. Financial reporting should always provide users with reliable information to help them in their decision-making. Financial reports should contain related, reliable, comparable and understandable data. Reliability is related to the quality of information and ensures that information is logically free of fault and bias and suggests what is expected, honestly (Karami and Akhgar, 2014).

That's why it was affected by the environment in which firms are operating in (Ferreiro, 2014). That's where the need to determine several factors affecting the quality of financial reporting in firms emerged. Especially in an uncertain environment where more firms are susceptible to failure and bankruptcy. To determine what are the different factors that lead to different levels of financial reporting quality among similar firms.

Literature determined several firm characteristics that differ across different firms leading to different levels of financial reporting quality (Sepasi et al., 2016; Hamidzadeh and Zeinali, 2015; Olowokure et al., 2015; Nodeh et al., 2015; Waweru and Riro, 2013; Hope et al., 2013; Huang et al., 2012). Whether financial leverage, firm size, firm age, liquidity, growth, productivity, profitability, institutional ownership, growth and asset management and audit firm size. They differ across firms and lead to differences in financial reporting quality.

That triggered the researcher to investigate the effect of company liquidity as a firm-specific characteristic on the quality of its financial reporting. As liquidity levels reveal the true status of the company and whether it suffers from any kind of financial distress. Especially in an environment of high uncertainty and emerging capital markets as in the Egyptian stock exchange.

It can be mentioned that the liquidity ratios are the best and easiest suited to undertake this study because they are used to evaluate the credit rating of the company and to identify the liquidity and capital of the critical current case. (Narenhra, 2013; Mohammed and Kim-Soon, 2012; Platt and Platt, 1990). On the other hand, the rates of the financial liquidity ratios such as Current, Quick and Cash ratios are only specific numbers that can be measured or used as an indicator to predict or explore for the better or worse. It affected all stakeholders. Every stakeholder has an interest in the liquidity position of a company. Suppliers of goods will check the liquidity of the company before selling goods on credit. Employees should also be concerned about the company's

liquidity to know whether the company can meet its employee related obligations—salary, pension. Creditors will be concerned by firm ability to repay its debt plus the interest on the due date

The contribution of this research stems from addressing a contemporary research issue which is the quality of financial reporting, that are widely discussed in different environments affecting all participants of different capital markets. It address the same topic in an emerging capital market in an Arab country as that of Egypt as to my knowledge is not widely discussed.

The remainder of this study is organized as follows. Section 2 presents a theoretical framework that reviews the literature and formulates the hypotheses. Section 3 exhibits the study samples and the model specification. Section 4 presents the study results accompanied by a discussion and provides the conclusions and recommendations.

Research problem:

After the recent financial crisis on 2008, the importance of financial reporting quality increased tremendously. This intrigued several researchers to determine the relationship between firm's financial position and capital structure and the quality of financial reporting. This study aims to investigate the effect of company liquidity the quality of its financial reporting. As liquidity levels reveal the true status of the company and whether it suffers from any kind of financial distress. Especially in environment of high uncertainty and emerging capital markets as in the Egyptian stock exchange.

Research objective:

The broad objective of the study to financial reporting quality in Egypt and ti answer the following questions:

- A. What is meant by the quality of financial reporting, how it can be measured and what are its most important proxies?
- B. What is meant by liquidity level of companies in the context of firms' financial position from an accounting point of view?
- C. What is the relationship between company liquidity and the quality of financial reporting generally and on the firms listed in the Egyptian Stock Exchange particularly?
- D. What are the most important determinants of this relationship and what are the most influential moderating variables affecting It.?

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

FRQ concept:

FRQ defined differently; some indicated that it the precision with which financial reports convey information about the firm's operations, in Particular its cash flows, in order to inform the equity investors in true and fair form of financial position. (Biddle et al., 2009) it also refers to the faithfulness of the information conveyed by the financial reporting process. (Ferreiro, 2014). this is in line with (Habib and Jiang, 2015) FRQ represents providing more information about the characteristics of firm's financial performance that are appropriate for specific decisions taken by specific users for specific needs.

As financial reporting is not only about the final output; (Jonas and Blanchet, 2000) but also about the quality of this process, which depends on each of its parts, including disclosure of the company's transactions, information about the selection and application of accounting policies and knowledge of the judgments made (Lin et al., 2015) However, even though companies may prepare financial statements in accordance with generally accepted accounting principles, but they may present differing levels of quality (Alasy, 2015)

financial reporting quality determinants:

Quality of financial reporting is not constant. It depends on the following country-level factors: the accounting standards adopted (Barth et al., 2008) and the level of law enforcement (Hope, 2003) the level of corruption in the country the legal system, characteristics of the tax system, involvement of the accounting profession, economic development and accounting education. (Ferreiro., 2014).

FRQ Also differs across firms of the same country. As it it's affected by firms' specific characteristics as the existence of corporate governance mechanisms, public or private companies and the accounting standards applied by the firm.

firm specific characteristics affects FRQ whereas as the age of the firms increase (Huang et al.,2012) continuous enhancement of the internal control structure as years pass, which by default leads to more integrity to the financial reports. Lastly old firms usually get the attention from governmental agencies than new ones. All these combine to better quality of financial reporting for high age firms than the lower ones.

Also Big N auditors affects their clients financial reporting quality ,as they have more resources and expertise (Hope et al., 2013) which enables them to effectively conduct the audit, thereby limiting managers' manipulative reporting behavior, lower earning management hence

increasing quality of financial reporting. In addition to corporate governance affect the quality of financial reporting (Yekini, et al.,2015; Adebimpe and Peace, 2011) the more corporate governance practices are applied the higher the level of financial reporting quality.

Also ownership structure has strong effects on quality of financial reporting as it drives the direction with which the financial reports are prepared for (Sepasi, et al., 2016; Nodeh et al.,2015) as it affects company image and as they can withdraw their investments leaving the company in troubled situation. so its investment is greatly treasured from firms management.

financial reporting quality measurements:

There are several proxies for FRQ (Ferreiro, 2014; Nyor, 2013) including : (i) earnings quality; (ii) accounting conservatism; and (iii) accruals quality. (IV) Earning management. These represent the quantitative methods for measuring financial reporting quality while the qualitative measures of financial reporting includes (5) relevance and reliability of financial statements, and (Vi) the level of financial statements qualitative characteristics that shows how financial reports are useful for decision making.

First, Financial reporting quality measured by earning quality is proxied through several categories (Dechow et al., 2010) defined three categories are: properties of earnings, investor responsiveness to earnings measured by earning response coefficients and external indicators of earnings misstatement. The Higher-quality earnings provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision maker. These authors considered the determinants of earnings quality to be firm characteristics, financial reporting practices, governance and controls, auditors, capital market incentives, external factors and the level of institutional factors in the country of the company.

The second measure of FRQ is the degree of accounting conservatism, which implies a more timely incorporation of economic losses into accounting earnings than of economic gains. Conservative accounting potentially serves a governance role by mitigating agency problems associated with delayed recognition of managers' poor decisions. (Hope et al., 2013) To the extent that managers are aware that poor decisions, such as negative net present value projects, will result in timely loss recognition, they are less willing to engage in such activities. Creditors also can protect themselves more quickly from company default, by demanding financial reports that have timelier loss recognition. By more quickly recognizing losses of the company, creditors are able to impose additional restrictions on managerial behavior, increasing the probability of repayment the positive association between accounting conservatism and future profitability because of improvements in investment efficiency. As well as FRQ, accounting conservatism has become an incentive to managers to promote better performing projects that increase future

performance since these economic or financial projects are more profitable. Show that conservative companies enjoy better future profitability due to their investment in more efficient projects

Third, accruals quality. It is based on mapping past, current and future cash flow operations with accruals (Garrett et al., 2012). Meanwhile, Accruals quality is achieved when the information reported to investors and to the market is credible and free of error and bias, intentional or otherwise (Lu et al., 2011), It is necessary also to take into account that EQ is negatively associated with earnings management. Which represent a backward measurement for financial reporting quality

Forth Earning management. Which is considered to be the inverse of FRQ (Dechow and Dichev, 2002) a higher degree of EM is associated with lower quality of information. Earnings management is used to distort the true performance of firms and analysts serve as external monitors to managers. Which is measured by earnings persistence and accruals, earnings smoothness, asymmetric timeliness and timely loss recognition, and target beating.

Sixth the value relevance Method which examine the relationship between stock returns and earnings figures in order to measure the relevance and reliability of financial reporting information. (Beest et al., 2009; Nyor, 2013) That examines the level of decision usefulness of financial reporting information by operationalizing the qualitative characteristics, i.e. changes in accounting information correspond to changes in market value of the firm, and it is assumed that earnings information provides relevant and reliable information

Finally the use of qualitative characteristics approach to measure FRQ. The attributes that must be available in the information in order to be considered good (Achim and Chis, 2014) these characteristics are explained in the Conceptual Framework issued by IASB/FASB in 2010, where they are divided into two categories: fundamental and enhancing characteristics. The fundamental characteristics consist of Relevance and faithful representation, while the enhancing characteristics include comparability, verifiability, timeliness and understandability.

FRQ in Egypt:

In Egypt There is no standard measurement for quality of financial reporting. It is affected by several factors related to the firms, as the accounting standards applied, the application of corporate governance practices, the level of environmental disclosure the firm applies, in addition to the religious values prevailing in the firms (Madboly, 2016).

This paper measures the quality of financial reporting using level of accounting conservatism. It is the most suitable measure for the Egyptian environment, which suffers from weak legal system and inefficient capital market. These factors represent vital drivers for the application of

accounting conservatism in financial reporting (Deeb, 2012). As it makes financial reports more appropriate and increases users ability to depend on it for several decisions (Francis et al., 2013).this helps in protecting company's stakeholders, especially in environment of high level of uncertainty as of the Egyptian capital market, especially after recent turbulences in political conditions in the country, affecting several firms leading to the weakening of their financial position. The quality of financial reports is affected by the financial status and the financial performance of the firms (Olowokure et al., 2015; Fererro. 2014) .Thus determining financial status of Egyptian firms is a must in order to determine the level of its` financial reporting quality.

firm financial status in terms of liquidity ratios:

Financial status of companies are determined using financial analysis. One of the main tools of financial analysis is financial ratios, they are useful indicators of a firm's performance and financial situation. Several Studies (Chiaramonte and Casu, 2016; Kim-Soon et al., 2013; Narenhra, 2013; Delen et al., 2013) agreed that financial ratios especially liquidity ratios, can be used as indicator of firms financial position and to predict any possible company failures and resulted bankruptcy.

Analysts frequently use the liquidity ratios to determine firm's financial status. And whether a company will be able to continue as a going concern. And to provide a red flag about a possible financial distress. This special attention to firm's liquidity level is attributable to its importance to all stakeholders. Every one of them has an interest in the liquidity position of a company. In This context (Kim-soon et al., 2013; Delen et al., 2013) found a significant positive relationship between liquidity ratios and firms financial position. The higher the liquidity ratio the better the financial position of the firm. Which proves the ability of liquidity ratios to predict company's failure.

Liquidity Ratios that are usually used to gauge a company's short term financial situation or solvency are the current, quick and cash ratios. This set of financial liquidity ratios which are commonly used to measure the financial performance (Mohammed, 1997) they have the ability to predict bankruptcy, whether it is used separately or in different combinations of ratios. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover the short-term debts.

Current ratio is the most common used as a basic liquidity test. If current ratio is greater than or equal to one (Kim-soon et al.,2013).this indicates that current assets should be able to meet near-term obligations and a current ratio less than one may mean the firm has liquidity issues.

Quick ratio is a much better test of liquidity. This is such because the current asset such as inventory and prepaid expenses that is more difficult to convert to cash is not taken in computing the ratio. This means, the higher quick ratio the more liquid it is, and this facilitate the company to determine or foretell any downturn in its business (Mahmood et al., 2009).

The cash ratio is the most conservative liquidity ratio among the liquidity ratios. (Delen et al., 2013).It only measures the ability of a firm's cash along with investments that are easily converted into cash to pay its short-term obligations. Along with quick ratio, a higher cash ratio means that the company is in a better financial position

Liquidity ratios show the company's ability to settle its short term debts obligations as they fall due. As the higher this value the better the company is able to cover its short term debts. (Otom, 2014) Lower liquidity ratio will indicate a company is experiencing financial distress. Previous studies agreed on liquidity ratios as one of the main important category used as determinants for firms suffering from financial distress (Alifiah,2014; Otom,2014) , as they are widely used by investors to measure the risk of their investment, (Kim-Soon et al.,2013) through screening of financial sound companies listed in stock market. Liquidity ratios are termed as short-term solvency ratios.

relationship between firm's liquidity and FRQ and hypothesis development:

The higher-quality accounting information provides a more accurate indication of underlying performance, and firms with higher operating performance are expected to have more incentives to provide earnings information of higher quality to show the true status of the firm (Lin et al., 2015) This intriguers the researcher to examine the relationship between firm liquidity as an indicator of firm real financial performance and the level of financial reporting quality. The higher- quality accounting information provides a more accurate indication of underlying performance, firms with higher operating performance are expected to be more transparent to reveal their fine status hence have higher FRQ.

Several studies examined the relationship between firm's liquidity and FRQ to diagnose the characteristics and the structure of firms having high level of FRQ. The results of the studies were contradictive.

(Hassan and Bello, 2013) examined the relationship between specific firms' characteristics of public firms working in the manufacturing industry in the Nigerian and quality of financial reporting .Their study showed negative correlation between the level of companies' liquidity and FRQ measured through earning management. This results agrees with the study of (Hassan, 2012) he investigated the effect of features of company on the quality of financial reporting of productive companies in Nigeria. The results of a study showed that liquidity has an inverse and

significant relationship on the FRQ when measured by the quality of earnings. It also agrees with the study of (Takhtaei & Mousavi, 2012) they explained that firms with weak liquidity ratios may wish to disclose more information to explain the reasons for such situation and to assure investors of its short – term nature. Thus liquidity may have effect on disclosure and so on financial reporting quality

On the contrary some researchers found positive relationships between level of firm's liquidity and the quality of financial reporting (Hamidzadeh and zenali, 2015) they investigated of the effect Liquidity on FRQ of listed companies in Tehran Stock Exchange (TSE) the research uses empirical method to test the relationships for the time period from 2007 to 2011. The method used for test hypotheses was multivariate regression. The results of this research shows that liquidity has significant and positive effect on financial reporting quality. The higher the level of company liquidity measured by firm's cash holding as a percent of total the higher the quality of financial reporting. Which is accepted intuitively as the performance of firms gets better they enjoy higher profitability and better financial position .hence, higher liquidity. Which stimulates it`s incentive to portray it`s performance by achieving higher level of financial reporting quality.

The previous studies showed the presence of positive relationship between firms liquidity and FRQ (Hamidzadeh and zenali, 2015) while other studies found negative relationship between firms liquidity and quality of financial reporting (Dehgan et al.,2013; Agyei-Mensah,2012; Takhtaei & Mousavi,2012).literature agreed on the presence of significant relationship between firm's liquidity levels and quality of financial reporting. But disagreed on the direction of this relation. This results needs further analysis to test this relationship on the firms listed in Egyptian Stock Exchange, especially in the context of high uncertainty existing in the Egyptian capital market. The research hypothesis can be derived as follows

H1: There is a significant relationship between liquidity level of firms and the level of FRQ of firms listed in the Egyptian stock exchange.

factors affecting the relationship between liquidity and financial reporting quality:

Firm`s specific characteristics affects the relationship between its level of liquidity and the quality of its` financial reporting. (Hamidzadeh and Zeinali,2015; Hope et al.,2013; Huang et al.,2012): as firm size, leverage, institutional ownership, profitability, and firm growth, firms age and the ownership structure of the country the firm exist in, the size of audit firm, the existence of corporate governance mechanisms and the accounting standards applied by the firm and firm productivity.

But we will focus on (leverage, firm size, profitability, and firms productivity as the most important moderating variables studied by previous researches (Sepasi et al., 2016; Hamidzadeh and Zeinali, 2015; Nodeh et al., 2015; Karami and Akhgar, 2014; Waweru and Riro, 2013) suitable and affecting the firms operating in the Egyptian environment.

Leverage refers to the percentage of debt financing in the capital structure of a firm. It is often called gearing ratio. It is measured by long term debt-to-fixed asset ratio. Literatures have suggested that there is a significant relationship between firm's leverage and FRQ (Waweru and Riro,2013) also (Hassan,2013) using the modified (Dechow and Dichev, 2002) model on 32 listed manufacturing firms in Nigeria while employing multiple regression technique finds a significant negative relationship between the degree of leverage and the level of financial reporting quality.

Firm's size (Karami and Akhgar,2 014) where big companies are subjected to more pressures than small companies; second, the big companies have higher negotiation capabilities for dealing with auditors; and third, big companies have more facilities to use for the extended range of accounting procedures. they measured firm size by logarithm of its total assets.

Firm's profitability has also been argued to have an influence on the relationship in question (Hamidzadeh and zenali, 2015) the higher profitability the better financial position .hence, higher liquidity. Which stimulates it's incentive to portray it's performance by achieving higher level of financial reporting quality.

3. METHODS

The research is based on the empirical methodology, to measure the relationship between level of liquidity and FRQ of firms, and the moderating variable affecting them. Regression research design is used. As it allows for testing of expected relationships between and among variables and the making of predictions regarding these relationships (Hassan and Bello,2013; Olowokure et al.,2015) this is in line with several other researches (Waweru and Riro.2013; Huang et al.,2012) that used the same design for testing this kind of relationships

Population and Sample selection

The population of the research is firms listed in the Egyptian stock exchange during the period 2014 and 2015. The sample consists of 32 company that the researcher was able to access it's full financial reports. After screening several firms following the literature (Olowokure et al., 2015; Madboly, 2015; Alasy, 2015; Hassan and Bello, 2013) the sample excludes banks and financial institutions because of their different natures and the separate laws and regulation they

follow, also excluded any company whose financial reports were prepared in other currency than the Egyptian pounds and any firm with incomplete financial reports.

Measurement of Variables:

The independent variable company liquidity: Liquidity means the ability of a company to meet its short-term current obligation as when these become due (Takhtaei, 2012; VenkataRamana et al., 2012), measured by QUICK Acid ratio: Current assets – inventory / current liability.

The dependent variable: FRQ: It is the precision with which financial reports convey information about the firm's operations. Measured by the degree of accounting conservatism, which implies a more timely incorporation of economic losses into accounting earnings than of economic gains (Ferro, 2014; Artiach and Clarkson, 2013) measured through the following formula:

$$\text{MTB} = \text{MV equity} / \text{BV equity}$$

MTB: market to book ratio represent the level accounting conservatism in the company, if it is more than one then it means that the accounting system lowers the book value of equity than its market value (Dietrich et al.,2007), which is an indicator for conservative accounting practices

MV Equity: the market value of the stock at the end of the financial year * no of outstanding common stocks

BV Equity: the book value of owners' equity calculated by the items of owner's equity in the balance sheet

Moderating variable:

- **Financial leverage:** The amount of debts the company has, it is measured by Debt ratio It measures the proportion of total debts a company has relative to total assets. Total debt/total assets (Hamidzadeh and zenali,2015; Tuvadaratragool,2013)
- **Size of company:** refers to the amount of assets the company have it is measured by Log of total assets (Karami and Akhgar,2014)
- **Co profitability:** refers to the company ability to generate profit from its operations. Measured by the ROA: net income / total assets; (Tuvadaratragool, 2013)
- **Co Productivity:** its measures how well the assets are used and the effectiveness of its investments in assets. It refers to the ability of firms asset to generate sales and its measured by the ratio between firms sales and its total assets (Altman et al.,2016).

Data collection and Analysis

The data used in this study is secondary data, collected from the financial reports of the companies published in their official websites, market prices of stocks are collected from the data of Egyptian stock exchange. The financial reports includes the financial statements and the related disclosures and the BOD reports (Olowakure et al., 2015) published along the financial statements as regulatory requirement for firms listed in the Egyptian stock exchange. Data gathered from actual financial data in the financial reports, financial ratios used were calculated. Then emptying the data in Microsoft excel sheet in preparation of analyzing it using SPSS to test the research hypothesis.

Statistical methods used in data analysis and model selection

Multiple regression was used to determine the effect of moderating variables on the relationship in question (Alasy,2015; Hassan and Bello,2013 ; Wawero and Rio.2013) and correlation is also used to determine the relationships between several variables(Huang et al.,2012).

The multiple regression formula is the same used in the study of (Hassan and Bello.2013) but with minor adjustments to suit the variables in study.

$$FRQ_{it} = \beta_0it + \beta_1liq_{it} + \beta_2LEV_{it} + \beta_3Fsize_{it} + \beta_4PROF_{it} + \beta_5Prod + e_{it}$$

FRQ = Financial Reporting Quality, β_0 = Intercept, β_1-5 = Coefficient of the independent variables, LIQ = Liquidity, LEV = Leverage, FSIZE = Firm Size, PROF = Profitability, e = error term, i = firm and t = year

4. RESULTS AND DISCUSSIONS

4.1 Results:

Table 1. Descriptive statistics

	N	Mean
MTB	64	1.4531250
LIQUIdity QR	64	2.1219532
Leverage	64	.522980
profitability	64	.0010383089
co size	64	8.7343750
productivity	64	.7117844
Valid N (listwise)		

Table 1 provides the descriptive statistics for all variables in study number of companies investigated in this study are 32 for 2 years representing 64 observations .For MTB the mean is equal to 1.45 , which indicate that most firms located in Egyptian stock exchange has more than 1 MTB which means having acceptable financial reporting quality.

While the mean of liquidity ratio is 2.12 which represents that the mean companies can cover their short term liabilities using their quick current assets. The mean leverage ratio for firms is 0.5 which means that assets are 50% funded by leverage. While mean profitability ratio is 0.001 which indicates weak profitability and low earning achieved by the firms listed in the Egyptian market. The mean company size ratio is 8.7. The mean productivity ratio is 0, 7 which means that the mean of companies that can generate 0.7 pound from every pound invested in assets which imply high asset management. But when comparing to profitability ratio it need to be considered the reasons of such low profitability.

Table 2. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df 1	df 2	Sig. F Change
1	.443 ^a	.197	.127	.4176268	.197	2.840	5	58	.023

Table 2 Multiple regression analysis is applied to test the relationship between firm liquidity and FRQ, taking into account the effect of moderating variable on the main relationship tested. The model is significant. Where p value of the model is (0.023) which is less than p value 0.05, so we reject the null hypothesis that these variables don't affect the quality of financial reporting. And since the significance of the model changed when adding these variables .this indicates that the relationship between firm liquidity and FRQ is limited by other firm specific characteristics.

Table 2 Shows the R Square significance test. It indicates whether the regression model of our study is model proper or not. As F=2.840 and sig=0.023 and P-value is less than 0.05, consequently it shows that variables have high determination power and are able to describe the dependent variable variance. In other words, our study model regression is a suitable model and by use of the model is able to determine variation of FRQ in accordance with the investigated independent variables.

In **Table 2** the multiple regressions, R Square, Adjusted R Square and Standard deviation of the estimation. The R, R Square and Adjusted R Square are equal to 0.443, 0.197 and 0.127 respectively which it means that there is correlation between FRQ as dependent variable and other variables in this study. Furthermore, R square adjusted indicate that 12.7 percent of changes of FRQ are determined by use of investigated independent variables in this study and 86.3 percent of change is conditional upon variables that have not been investigated in this study. As determinants of firms stock prices as the news and media affecting the companies especially in environment as that of the Egyptian market where high level of uncertainty prevails. And the instability in the market due to turbulences in the political conditions in the recent years.

Table 3. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.350	.796	1.695	.095	
	LiquidityQR	.441	.162	.582	*.008	
	profitability	-.718	1.068	-.094	-.672	.504
	Leverage	.454	.159	.586	2.865	*.006
	Company size	-.108	.091	-.161	-1.193	.238
	productivity	.225	.101	.303	2.220	*.030

In **Table 3** the regression analysis shows significant relationship between firm liquidity and financial reporting quality, where the p value of the independent variable is (0.008) which is less than the p value 0.05. So we reject the null hypothesis that states level of firms' liquidity has no significant effect on its FRQ and accept the alternative hypothesis, that the level of firm liquidity has significant relationship on quality of firms financial reporting in the Egyptian environment.

In **Table 3** the regression analysis shows that among all the firm specific characteristics tested (leverage, profitability, company size and productivity) only leverage and company productivity were significant. Their p value were (0.006 and 0.03) respectively which is less than the p value of 0.005 at 95 % interval. Which indicates that only financial leverage and firm productivity in managing its assets is significant in the Egyptian environment and affecting the relationship between firm liquidity and financial reporting quality. While firm size and profitability have no significant effect on the relationship in question where their significance values are (0.235, 0.504) respectively which is more than the significance level at 95 % interval 0.05.

Table 4. Correlations

	Liquidity QR	profitability ROA	Leverage	MTB	Company size	productivity	
LiquidityQR	Pearson Correlation	1	.250*	-.812**	.002	.005	-.415**
	Sig. (2-tailed)		.045	.000	.990	.967	.001
	N	64	64	64	64	64	64
MTB	Pearson Correlation	.002	.026	.177	1	-.126	.218
	Sig. (2-tailed)	.990	.836	.159		.316	.083
	N	65	64	64	64	64	64

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed)

Table 4 presents the correlation matrix of the variables, from which, it has observed that the correlation between FRQ and quick ratio is – 0.21. Also, Pearson correlation between FRQ and leverage, Firm size, profitability and productivity are 0.192, -0.142, - 0.080 and 0.218

The correlation analysis show weak insignificant relationship between firm liquidity when measured by quick ratio (– 0.21) and financial reporting quality. Where the significance level is (0.434) which is higher than 0.05 .This indicates that the effect of firm liquidity on its FRQ is limited by the other firms specific characteristics. Which is in line with the results of the regression analysis.

Also there is weak insignificant relationship between firm leverage, Firm size, profitability and FRQ where their significance level is (0.064, 0.131, and 0.264). While results show positive significant correlation between firm productivity in managing its assets and financial reporting quality, where the significance level is (0.042) which is lower than 0.005.

On the other hand, correlation between firm liquidity and both leverage and productivity is (-0.81, -0.415) this reveals that there is strong and moderate negative significant relationship between firm liquidity and firm leverage and productivity respectively, where the significance level is (0.00, 0.00) for both variables.

Dissuasions of the results:

The regression result reveals that liquidity has significant effect at 5% level on FRQ of Egyptian listed firms with a positive coefficient. This result reveals that the higher the investment in short-term liquid asset the higher the FRQ. Where the higher liquidity provides more investment opportunities leading to higher profitability which encourage managers to portray the firm performance to improve their image in the market. It can also be argued that an optimal level of liquidity is not advantageous since managers would be tempted to have access to the excess liquid and exercise discretionally behavior. Therefore, the risk arises only when excess liquidity is maintained by the firms.

Our empirical findings support the findings of several other researches (Hamidzadeh and zenali, 2015; Martani and Khairurizka, 2009; Catagna and Matosky, 2008) while it contradicts with findings of (Takhtaei & Mousavi, 2012) where the higher the liquidity the more resources available to managers to engage in opportunistic behavior leading to lower FRQ.

The regression result reveals that leverage has significant effect at 5% level on FRQ of Egyptian listed firms with a positive coefficient. This implies that the more leveraged the manufacturing firms are the higher quality of the financial reporting will be. However, more leverage firms improve the quality of information obtainable from their financial statements. However, as leverage represents firm's capital structure, the fund can be used to support long term growth for the firm so it can earn profit. As long as firm's debt level has not yet reached the level of financial distress. This is in line with (Hassan, 2013, Cohen, 2003). However a high leverage suggests that the firm uses debt financing aggressively. while the results contradict is with (Waweru and Riro, 2013; Olowokure et al., 2015; Martani & Khairurizka, 2009) this differences may result from difference in sectors firms operating in and type of economy itself.

The regression result reveals that firm productivity has significant effect at 5% level on FRQ of Egyptian listed firms with a positive coefficient. The higher the efficiency of firms in managing their assets the higher the financial reporting quality. (Chen et al., 2011; Adelopo, 2010) Where firms that can generate more sales using the same level of investment in their assets represent high level of managerial skills and competencies that provide competitive advantage for firms and hence .support higher financial reporting quality

The regression result reveals that firm size has insignificant negative effect at 5% level on FRQ of Egyptian listed firms. This is contradictory to the results of prior researches as (Karami and Akhgar, 2014; Thoopsamut and Jaikengkit, 2009) this contradiction is expected to be as a result of the environment of the study as it wasn't conducted in emerging economy as of Egypt. where firm size isn't by default applying better accounting practices, as in large firm sizes the management of these firms lacks important managerial expertise, where they are hired using old fashioned ways depending on their years of working in the firms rather than their efficiency and expertise.

Also the regression result reveals that firm profitability has insignificant negative effect at 5% level on FRQ of Egyptian listed firms. This is in line with several studies that found no significant relationship between them as in (Adebimpe and Peace, 2011) this contradictory to previous results that Firms profitability has also been argued to have an influence on the quality of financial reporting. (Alsaeed, 2006; Hamidzadeh and Zenali, 2015) argued that a profitable firm may feel proud of its achievements and therefore would wish to disclose more information to the public in order to promote positive impressions of its performance and hence increase its financial reporting quality.

This contradiction is attributed to differences in measurement of profitability. where changes in profitability is more accurate than the current profitability of the company. Especially in recent years of political turbulences that affected profitability tremendously. And stock prices were affected by other factors rather than financial variables, that affected MV equity and hence measurement of financial reporting quality.

The correlation analysis shows weak insignificant relationship between firm liquidity when measured by quick ratio (-0.21) and financial reporting quality. Where the significance level is (0.434) which is higher than 0.05. This indicates that the effect of firm liquidity on its FRQ is limited by the other firm specific characteristics. Which is in line with the results of the regression analysis.

While the significant correlation between on the other hand, correlation between firm liquidity and both leverage and productivity is (-0.81, -0.415) this reveals that there is strong and moderate negative significant relationship between firm liquidity and firm leverage and productivity respectively, where the significance level is (0.00, 0.00) for both variables. Shows that the relationship between liquidity and FRQ is limited by the effect between liquidity and both financial leverage and asset profitability respectively.

Where the negative correlation shows that more firms in Egyptian market depends uses leverage to finance its current liabilities and not investing much in fixed assets. (Hassan, 2013) Leverage must be watched for the firm not the reach financial distress.

5. CONCLUSIONS AND RECOMMENDATIONS

Conclusions:

These results shows the presence of significant relationship between level of firm liquidity and the quality of financial reporting of these firm. Also shows that the level of firm financial leverage and productivity of firms' assets affect the relationship between firm liquidity and FRQ. Where the higher the level of firm liquidity and the higher the level of financial leverage and the more the productivity of firm in managing its assets, the higher the level of firms financial reporting in the Egyptian capital market.

Where the higher the liquidity level increases ability of firms to cover short term debt (Takhtaei,2012), and in the presence of more leverage it increases firms ability to also invest in fixed assets with the appropriate proportion to induce sales and profits out of its investment. While increasing liquidity by its own is not a goal to be pursued. As increasing firm liquidity increases idle resources, and the firm loses a lot of chances in generating more profits.

Liquidity (Narenhra,2013) involves planning and controlling of current assets and current liabilities in such a manner that eliminates the risk of the inability to meet due short-term obligations on one hand, and avoids excessive investment in these assets, on the other hand.

So it can be noticed that company liquidity is an indicator for company financial soundness along with other signals, as its leverage and productivity .but it is doesn't mean that keeping the company safe and sound requires only taking care of its level of liquidity, (Saleem and Rahman, 2011) as maintaining proper liquidity level as a mean rather than an end. So there must be a balance in managing firm`s liquidity to avoid over caution that leads to companies losing their profitability while keeping up with the obligations due in the same time, and conveying the results in a fair manner for users to take their own decisions.

Balancing the leverage and taking care not to reach the point of financial distress, where leverage is used to cover short term liabilities. Financial leverage and depending partially on loans enhance firm's ability to invest in various options. But depending on leverage to cover short term liabilities represent company failure in managing liabilities and provide an early signal of upcoming financial distress.

The study provided evidence on the usefulness of firm liquidity and the accompanying firm characteristics on explaining and predicting FRQ of the Egyptian listed firms. Thus it is therefore recommended that firm characteristics used in this study which is liquidity level, leverage and productivity, to be encouraged by the Egyptian regulating bodies and all other stakeholders because of their role in enhancing quality of financial reporting in the Egyptian environment.

Recommendations:

FRQ is not only a matter financial variables in the Egyptian environment, which is an unstable environment with high level of uncertainty in the recent year's, because of the political turbulences taking place in it. FRQ emerged as a crucial topic that attracted the attention of all stakeholders. Where in an environment as that of Egypt that suffers from weak legislative system. Thus it can be stated that the quality of financial reporting in the Egyptian capital market, is influenced by corporate strategy and the strategy of the company on the stock market. That's where the roles of accounting standards and regulative bodies steps in, to improve FRQ in the Egyptian standards and applying strong sanctions on those who manipulate financial reports.

Governors and regulators should induce and enforce laws and regulations to guarantee full compliance with the accounting requirements. (Dahawy et al., 2011) to ensure the presence of high quality financial reporting. Also, severe consequences must be held to violators.

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