The Influence of Capital Structure, Profit Growth, Profitability and Company Size on the Quality of Earnings

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Abstract

This study aims to analyze the effect of capital structure, profit growth, profitability and firm size on earnings quality in manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange in 2017–2021. Sampling used purposive sampling to obtain 7 companies. The data analysis technique uses panel data which is processed with Eviews 9. Based on the partial test, the capital structure and profitability variables have a negative effect on earnings quality. While the variables of profit growth and firm size have no effect on earnings quality. Then, the results of the F test shows that there is a simultaneous influence between the variables of capital structure, profit growth, profitability and firm size on earnings quality. The result of testing the coefficient of determination is 50.71 per cent, which means the ability of the independent variable to explain earnings quality in this study is 50.71 per cent, while the remaining 49.29 per cent is influenced by other variables not used in this study.

Key words: earnings quality, capital structure, profit growth, profitability, size.

Introduction

In today’s era, the main problem that is in the public’s attention is the economic problem. The increasingly rapid economy causes increasingly sharp competition between companies. Indonesia’s economic recovery after the crisis has begun to show its impact on increasing business activity today. The company’s main activity that triggers other activities is sales. With increased sales, the company will get increased profits if it is supported by good internal control so that the company can maintain its viability in the long term.

In making sales, a company usually sells goods in two ways, namely by cash sales and credit sales. But with so many companies that are currently established, intense competition in the business world is not a foreign problem, so it is no longer possible for companies to conduct sales transactions only in cash. For this reason, we need a business that can guarantee the survival of a company, namely to control a market and increase sales, so many companies provide convenience facilities in marketing their products, one of which is by selling on credit, because this can lead to receivables and bad debts.

Management always makes decisions based on accurate and actual information, to obtain the appropriate information, a system that regulates the flow and processing of data is needed. For the company to be well controlled, a
good Accounting Information System is needed and supported by good and trained human resources to facilitate company operations that allow leaders to continuously know the actual state of all company activities.

Often the Accounting Information System implemented by the company does not match the desired information needs, this is due to the lack of management planning in decision making in determining the information system and software that is by the type of business being run by the company. The importance of profit information makes all companies compete to increase their profits so that they can look good to their users. However, there are some parties who use unhealthy ways to achieve individual goals on company profit information. This is what makes the practice of profit manipulation in a company. This is often done by company management who know the conditions in the company with the intention of attracting investors to invest their funds in their company. This incident causes the company’s profits to be of low quality. Profit can be used as the basis for decision making by investors if the company’s profits have good quality (Putri & Fitriasari, 2017).

Food and beverage companies are one of the industrial sector categories on the Indonesia Stock Exchange (IDX) which have the opportunity to grow and develop. The food and beverage industry is also predicted to improve. This can be seen from the proliferation of the food and beverage industry in this country, especially since it entered a prolonged crisis.

It can be seen that every year food and beverage companies experience a fluctuating increase. From 2020 to 2021, food and beverage companies will become 26 companies with 20 companies that have good profit quality. This condition makes the competition increasingly fierce so that company managers are competing to find investors to invest their funds in the food and beverage company. Besides the many companies that have sprung up, of course, they do not always get good profit quality. There are some companies that get poor earnings quality. This of course will be an assessment of investors in investing their capital. In its business operations, the company is not always in a safe position, in fact it is often faced with increasing or decreasing situations so that the quality of the profits obtained cannot always be positive. The quality of earnings obtained by PT AISA has fluctuated from 2017 to 2021 and is dominated by the acquisition of earnings quality values with minus numbers as can be seen in the following graph:

One of the phenomena related to the decline in earnings quality due to earnings management practices occurred at PT Tiga Pilar Sejahtera Food Tbk (AISA). PT Tiga Pilar Sejahtera Food Tbk (AISA) is suspected of inflating Rp 4 trillion in its 2017 financial statements. This was revealed in the Fact–Based Investigation Report of PT Ernst & Young Indonesia (EV) on the new management of AISA dated March 12, 2019. The alleged inflation was suspected to have occurred in the accounts receivable, inventories and property, plant and equipment of AISA Group. In addition to the Rp 4 trillion inflated, there were also findings of alleged revenue inflation of Rp 662 billion and other inflation of Rp 329 billion in the EBITDA (earnings before interest, tax, depreciation and amortization) of the food business entity of the issuer. Another finding from the EV report is the flow of funds of Rp 1.78 trillion through various schemes from the AISA Group to parties suspected of being affiliated with the old management. Among others, using AISA Group loan disbursement from several banks, time deposit disbursement, transfer of funds in bank accounts, and financing for affiliated parties’ expenses by the AISA Group, the report said (https://finance.detik.com).
the above phenomenon, it is concluded that the company has not presented actual profits to the users of its financial statements (principals). This indicates that the profit presented is of poor quality and has the potential to mislead users of financial statements in making economic decisions.

Evaluating the quality of earnings will help users of financial statements make decisions about the certainty of current earnings and expectations in the future. Regarding earnings quality, it is important to understand that earnings with lower quality are not indicators of poor financial situation or incorrect application of accounting policies, estimates and valuations (Cug & Cugova, 2021). Various companies must have a variety of different and interesting issues to examine because of the variety of companies in producing capital structures. In its production activities, companies definitely need a lot of funds so that capital problems are one of the factors that hinder the company’s growth and also the need for capital is needed in increasing the development of a business (Nurkhasanah & Nur, 2022). The use of debt in the capital structure of a company depends on the company’s funding needs and the desire and ability of shareholders to provide funds for the company (Ghosh & Moon, 2010).

The results of the research by Anggraini & Priyadi (2019) show that capital structure has a negative effect on earnings quality. Companies that have a high level of leverage will result in low discretionary accruals, resulting in high quality of earnings. Leverage has a significant effect on discretionary accruals because the level of leverage of a company is one of the things considered by investors in making investment decisions. This is because the size of the debt level of a company greatly affects the quality of the company’s earnings. The results of another study conducted by Lusiani & Khafid (2022) and Syafirizal et al., (2019) showed that the capital structure had a negative effect on earnings quality. However, the results of research conducted by Wulandari et al., (2021) and Abidin et al., (2022) give results if the capital structure has no effect on earnings quality. The performance of a profit organization can be seen through the company’s profit growth each year. Profit growth ratio can be interpreted as the development or decline in profits generated by the company in a certain period. However, in 2017–2021 companies in the food and beverage sub-sector from year to year experienced negative and fluctuating profit growth (Purnawan & Suwaidi, 2021).

The results of research by Puspiritawati et al., (2019) say that earnings growth has a positive effect on earnings quality. Quality earnings indicate that the management does not manipulate in its financial statements related to earnings information. Profit growth has a positive effect on the quality of the company’s earnings because if the company’s profits have the ability to grow, it means that it indicates that the company’s financial performance is good and has good earnings quality (Dewi, 2017). Therefore, the better the profit growth of a company, it indicates that the higher the quality of the profit generated. The results of other studies conducted by Kumalasari (2018), Silaban & Harefa (2021) and Kurniawan & Aisah (2020) show that profit growth has a positive effect on earnings quality. However, the results of other studies conducted by Nugrahani (2019), Yusuf & Wicaksono (2021) and Lestari (2020) show that profit growth has no effect on earnings quality.

The increase in sales volume will affect the profit earned by the company. The company’s ability to generate a profit will be reflected in the company’s profitability. A company will run optimally as a result of a high level of profitability and conversely a low level of profitability will result in the company’s operational activities being disrupted (Arifin, 2018). The results of research by Anggraini & Widati (2022) say that profitability has a positive effect on earnings quality. A company that has high profitability, the profit generated by the company will also be higher. This will make investors more attractive to the company because it is considered profitable for investors to invest in the company. The greater the return on assets (ROA) of a company, the greater the level of profit achieved by the company. So it can be said that the company has good earnings quality. The results of other studies conducted by Ardianti (2018), Kurniawan & Suryaningsih (2017), and Herninta & Ginjing (2020) show that profitability has a positive effect on earnings quality. The results of other studies conducted by Laoly & Herawaty (2019) and Pritiza (2017) show that profitability has a negative effect on earnings quality. A large company has a greater ability to maintain and develop its market share (Birjandi et al., 2015). Thus, the business continuity of large companies is more guaranteed in improving their performance (Dira & Astika, 2014). So, the larger the size of a company, the smaller the company’s tendency to manipulate earnings so that the quality of earnings is getting better (Wijaya, 2020).

Company size is a description of the size of a company which is indicated by total assets, total sales, average total assets. Company size is one of the variables used by interested parties such as investors in determining economic decisions. One of the benchmarks that describe the size of a company is the size of the company’s assets. In general, large companies will have large assets so that they can attract investors to invest in these companies. Novianti (2012: 3) in (Voren, 2017).

The results of research by Anggraini & Priyadi (2019) say that company size has a positive effect on earnings quality. Investors will be more attracted to large companies, because they have a growing profit in the long term. Companies with large total assets indicate that the company has reached the maturity stage. In this stage the company has better prospects in a relatively long period of time, and it is predicted that its financial performance is relatively more stable. Therefore, investors are more confident in large companies than small companies in the hope of obtaining greater returns.

The results of other studies conducted by Zatira et al., (2020), Marsela & Maryono (2017) and Widmasari et al., (2019) showed that firm size had a positive effect on earnings quality. However, the results of other studies conducted by Soly & Wijaya (2018), Hakim & Abbas (2019) and Kurniawan & Suryaningsih (2017) give results if company
size has no effect on earnings quality. Based on the description of the background above, there are variations and inconsistencies in some research results so that it encourages the author to conduct research again on the factors that affect earnings quality in companies in Indonesia. The factors used in this study are capital structure, profit growth, profitability and company size. The food and beverage sector is one of the sectors that survive the crisis in Indonesia because some food and beverage products remain the main needs of the community. The independent variables in this study used the variables of capital structure, profit growth, profitability and firm size. The dependent variable in this study is earnings quality. The object used in this study is a food and beverage sub-sector manufacturing company in Indonesia for the 2017-2021 period.

**Literature Review**

**Agency Theory**

Agency theory is a contract between management (agent) and owner (principal). Shareholders (principals) employ managers (agents) who act on behalf of and for the interests (principals) to manage a company, so that on behalf of their actions the agent gets rewarded (Jensen and Meckling 1976). In order for this contractual relationship to run smoothly, the owner of a company will delegate this authority to management with the aim that management will manage the company to generate high profits, and the owner will oversee the performance of management. Designing the right contract to align the interests of management and owners in the event of a conflict of interest is also the core of agency theory (Figgianasari, 2019).

The relationship between agency theory and earnings quality is whether the profits generated by the company are classified as having good quality. The existence of monitoring from the principal here can help control all costs incurred in carrying out company operations. So that cost overruns can be avoided. This will also make the value of capital structure, profit growth, profitability, company size and company profits can be said to be of good quality, because it is able to describe the real situation.

**Signalling Theory**

Signaling Theory was developed by (Ross, 1977) which states that company executives who have better information about their company will be encouraged to convey this information to potential investors so that the company’s stock price continues to increase (Erawati & Hasanah, 2022).

The relationship between signal theory and earnings quality is because information in the presentation of financial statements is needed for users, in this research phenomenon it is used to find out how earnings performance is an evaluation of shareholders to management in seeing earnings quality. If it decreases, what management does is to give a negative signal to the shareholders, and vice versa if what management does makes the quality of earnings increase then it gives a positive signal to the shareholders.

**Earnings Quality**

IAI (2012) in PSAK Number 1 explains that earnings information is needed to assess changes in potential economic resources that may be controlled in the future, generate cash flows from existing resources, as well as to formulate considerations about the effectiveness of the company in utilizing additional resources. Profit information presented in the financial statements is useful for shareholders to predict future earnings, while for investors it is useful for making decisions in investing their funds. Investors buy stocks when they believe that future earnings will increase the stock price. So that the earnings information published by the company must be of high quality so as not to harm investors (Oktapiani & Ruhiyat, 2019).

High-quality earnings are considered more sustainable because reported earnings provide information about the company’s future earnings. Moreover, given that capital market participants make their investment decisions based on reported earnings, earnings quality is directly related to the firm’s cost of capital. This implies that earnings quality is one of the key factors related to corporate sustainability (Shin & Kim, 2019).

Earnings quality is a profit that describes the actual financial capability of the company in the financial statements. According to research by Penman (2001), quality earnings are income that is able to describe the continuity of income in the future based on cash flow and accrual components. Companies with high earnings quality will openly report their earnings and reports based on actual conditions. At the same time, when the profit displayed does not match the actual profit, the quality of the profit will be low, so that it can mislead investors and creditors in making decisions (Musyarofah & Arifin, 2021).

The formula for calculating earnings quality can be described as follows:
QualityOfIncome = \frac{OperatingCashFlow}{EBIT}

Source: Anggraeni, Widati, 2022
EBIT = Profit before income tax.

Capital Structure

A new business requires capital and still more capital is needed if the company is to grow. The funds needed can come from a variety of sources and in different forms. Companies can use debt or equity capital to finance their assets. The best option is a mix of debt and equity. It is well known that a firm's value can be maximized by minimizing its cost of capital. One of the main objectives in today’s strategic management is to identify the optimal capital. The optimal capital structure only exists when debt and equity combine to reduce the cost of capital and increase the profitability of the firm. The management of the company itself must regulate their capital structure in a way to maximize the value of their company, and this decision is very important (Tailab, 2014) in (Singh, 2019).

Capital structure is the ratio of long-term debt to sources of capital (Keown et al, 2008). Companies that have a high level of debt means that the company relies heavily on external loans (debt) to finance its assets. Meanwhile, a company that has a low level of debt means that the company finances more of its assets with its own capital. Companies that finance a lot of their assets using debt are considered unable to maintain financial balance in managing funds. Murwaningsari (2008) also said that the amount of debt shows the quality of the company and the prospects are not good in the future. Therefore, the lower the company’s leverage level, the higher the earnings quality (Anggrainy & Priyadi, 2019).

The formula for calculating the capital structure can be described as follows:

$$DebttoEquityRatio = \frac{TotalLiability}{TotalEquity}$$

Source: Anggrainy, Priyadi, 2019

Profit Growth

Profit growth means that the company’s performance is going well and it is possible to have growth in earnings quality (Alfiati Silfi, 2016). If a company has the opportunity to increase its profits, the company reflects reliable financial statements. According to Adella and Cahyaningsih (2020) if a company has the opportunity to grow on its profits, it means that the company is good and has the opportunity to also have the opportunity to grow on the quality of its earnings (Abidin et al., 2022).

Profit growth is an increase in profit or decrease in profit every year. Profit growth is also used to assess how a company is performing. The Indonesian Institute of Accountants (2009) says, “Net income (earnings) is often used as a performance measure or as a basis for other measures such as return on investment or earnings per share. Profit growth is very important. Information for many people, including entrepreneurs, financial analysts, shareholders, economists, and so on. The main purpose of earnings reporting is to provide useful information to those who are most interested in financial statements. Profit growth from year to year is also used to measure management efficiency and help predict the company’s future direction or future dividend distribution. Profit growth will affect the investment decisions of investors and potential investors who will invest in the company (Budiharjo, 2021).

The formula for calculating profit growth can be described as follows:

$$ProfitGrowth = \frac{NetProfitYear_t - NetProfitYear_{t-1}}{NetProfitYear_{t-1}}$$

Source: Anggrainy, Priyadi, 2019

Net profit : The company’s net profit for the current period
Net Profit Year t -1 : The company’s net profit for the previous period
**Profitability**

Profitability is a percentage ratio used to determine how well a company can generate profits at a reasonable cost. In a different way, the viability of a company can be measured based on the benefits and assets and resources to be compared (Kalbuana et al., 2020).

A company with a good level of profitability indicates that the company is bona fide and very promising to be a place to invest. A company that is able to maintain its level of profitability means that the company is able to run its business well. When the company is able to run its business well, it means that the company is able to work optimally to obtain maximum profit. Companies that have good profitability are able to improve the quality of profits owned by the company because profitability measures the company’s ability to earn profits. The higher the company’s profitability, the better the quality of profits earned by the company (Syawaluddin et al., 2019).

The formula for calculating profitability can be described as follows:

\[
\text{Return on Asset} = \frac{\text{Profit After Tax}}{\text{Total Assets}}
\]

Source: Anggraeni, Widati, 2022

**Company Size**

Company size is the size of a company (Wariantoto & Rusiti, 2014). Company size can be seen from how big the total assets owned by the company. The larger the assets of a company, the larger the size of the company. Companies that have a large scale tend to be more noticed by the public. This causes the company to tend to be careful in financial reporting (Jao & Pagalung, 2011) in (Wijaya, 2020).

A large company has a greater ability to maintain and develop its market share (Birjandi et al., 2015). Thus, the business continuity of large companies is more guaranteed in improving their performance (Dira & Astika, 2014). So, the larger the size of a company, the smaller the company’s tendency to manipulate earnings so that the quality of earnings is getting better (Wijaya, 2020).

The formula for calculating company size can be described as follows:

\[
\text{Company Size} = \ln(\text{Total Assets})
\]

Source: Ginting, 2017

Information:

\(\ln\) Total Assets = Natural logarithm of Total Assets.

**Object of Research**

This research is quantitative because it uses data sourced from the company’s annual financial statements where the data obtained is data in the form of numbers. The problem formulation in this study is included in the associative problem formulation where the research problem formulation is asking the relationship between two or more variables. With a causal relationship, namely a causal relationship.

The data sources used in this study are secondary data sources with the documentation method for data collection with panel data regression analysis and the help of software eviews 9.0.

The population in this study are all food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 period. From the 26 population of food and beverage companies, a sample of 7 companies from manufacturing companies in the food and beverage sub-sector will be studied for a period of 5 years starting from 2017 to 2021. So the number of samples of research data obtained is 35 data.

**Results and Discussion**

With the selection of the Common Effect Model (CEM) as the Panel Data Regression Model, the following is a summary of the research results that have been obtained based on panel data regression analysis testing:

**Effect of Capital Structure on Earnings Quality**

Hypothesis testing conducted on the capital structure variable on earnings quality gave the results that the t-statistic of capital structure (-2.199564) \( \geq \) t-table (2.04227) and the value of Prob. (0.0357) \( \leq \) significance level (0.05) with
Table 1. List of Company Sample Names

<table>
<thead>
<tr>
<th>No.</th>
<th>Company’s Name</th>
<th>Issuer Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PT Indofood Sukses Makmur Tbk.</td>
<td>INDF</td>
</tr>
<tr>
<td>2.</td>
<td>PT Nippon Indosari Corporindo Tbk.</td>
<td>ROTI</td>
</tr>
<tr>
<td>3.</td>
<td>PT Sariguna Primatirta Tbk</td>
<td>CLEO</td>
</tr>
<tr>
<td>4.</td>
<td>PT Ultrajaya Milk Industry and Trading Company Tbk.</td>
<td>ULTJ</td>
</tr>
<tr>
<td>5.</td>
<td>PT Siantar Top Tbk</td>
<td>STTP</td>
</tr>
<tr>
<td>6.</td>
<td>PT Indofood CBP Sukses Makmur Tbk.</td>
<td>ICBP</td>
</tr>
<tr>
<td>7.</td>
<td>PT Delta Djakarta Tbk</td>
<td>DLTA</td>
</tr>
</tbody>
</table>

Source: www.idx.co.id (Data processed, 2022)

Table 2. Research Summary

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Prediction</th>
<th>t-statistic</th>
<th>Prob. (F-statistic)</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Structure</td>
<td>-2,199564</td>
<td>0.0357</td>
<td>-</td>
<td>Received</td>
</tr>
<tr>
<td>Profit Growth</td>
<td>-0.705612</td>
<td>0.4859</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td>Profitability</td>
<td>-5,585416</td>
<td>0</td>
<td>-</td>
<td>Received</td>
</tr>
<tr>
<td>Company Size</td>
<td>-2,028519</td>
<td>0.0515</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td>Total Observations</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-Square</td>
<td>0.507166</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Statistic</td>
<td>9.747181</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob. (F-Statistic)</td>
<td>0.000036</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Output Eviews 9.0 (Data Diolah)

A negative direction which means that the capital structure variable has a negative effect on earnings quality and causes H1 to be accepted.

Companies that have a high level of debt means that the company relies heavily on external loans (debt) to finance its assets. Meanwhile, a company that has a low level of debt means that the company finances more of its assets with its own capital. Companies that finance a lot of their assets using debt are considered unable to maintain financial balance in managing funds. Murwaningsari (2008) also said that the amount of debt shows the quality of the company and the prospects are not good in the future. Therefore, the lower the company’s leverage level, the higher the earnings quality (Anggrainy & Priyadi, 2019).

The results of other studies conducted by Lusiani & Khafid (2022) and Syafrizal et al., (2019) also give results if capital structure has a negative effect on earnings quality. However, contrary to the results of research conducted by Wulandari et al., (2021) and Abidin et al., (2022) the results show that capital structure has no effect on earnings quality.

Effect of Earnings Growth on Earnings Quality

Hypothesis testing conducted on the earnings growth variable on earnings quality gave the results that the t-statistic value of earnings growth (-0.705612) ≤ t-table (2.04227) and the value of Prob. (0.4859) > significance level (0.05) which means that the profit growth variable has no effect on earnings quality and causes H2 to be rejected.

A company that has the opportunity to grow on its profits does not mean that it has a good financial performance. This can be caused by a negative response from users of financial statements (investors) in responding to earnings quality information. Profit growth in a company is usually caused by a surprise profit earned in the current period. Investors can certainly respond to the shock profit information as an indication of intervention from the company’s management on the financial statements so that profits have increased. Therefore, the profits generated by the company do not reflect the actual state of the company. This causes a decrease in investor confidence in companies that experience profit growth so that the quality of earnings also decreases. The company’s profit that has increased is good news for investors, while the company’s profit that has decreased is bad news for investors (Yusuf & Wicaksono, 2021).

The results of other studies conducted by Nugrahani (2019), Yusuf & Wicaksono (2021) and Lestari (2020) show that profit growth has no effect on earnings quality. However, contrary to the results of research conducted by Kumalasari (2018) and Silaban & Harefa (2021), the results show that profit growth has a positive effect on earnings quality.

Effect of Profitability on Earning Quality

Hypothesis testing conducted on the profitability variable on earnings quality gave the results that the t-statistic of profitability (-5.585416) ≥ t-table (2.04227) and the value of Prob. (0.000) ≤ significance level (0.05) with a negative
direction which means that the profitability variable has a negative effect on earnings quality and causes H3 to be accepted.

The statistical results of this study mean that profitability also describes the extent to which the company’s assets are able to generate profits. However, in inflationary conditions, the company’s assets are usually of lower value as well as their profitability. However, this condition was responded positively by high risk averse investors. This can happen because the optimism of high risk averse investors with a comprehensive assessment of undervalued stock values during inflation will provide good returns in the long term (Erma and Nursiam, 2014). In addition, the high profitability of the company does not necessarily describe the quality of the company’s earnings because companies that have high profitability are feared or suspected of practicing earnings management (Pitria, 2017).

The results of other studies conducted by Laoly & Herawaty (2019) and Pitria (2017) show that profitability has a negative effect on earnings quality. However, contrary to the results of research conducted by Ardianti (2018) and Kurniawan & Suryaningsih (2017), the results show that profitability has a positive effect on earnings quality.

**Effect of Firm Size on Earnings Quality**

Hypothesis testing conducted on the firm size variable on earnings quality gave the results that the t-statistic value of firm size \(-2.028519 \leq 2.04227\) and the value of Prob. \((0.0515) \geq 0.05\) significance level \((0.05)\) which means the firm size variable has no effect on earnings quality and causes H4 to be rejected.

Manufacturing companies that are large in size will support the company to be able to generate quality profits. This is a consideration for stakeholders in the decision-making process. From the results of this study, it is stated that if the level of company size is greater, the financial risk will also be greater for the company, and vice versa, companies with small sizes have less financial information than companies with large sizes in increasing their profits, as well as the risks borne. the company will also be lighter (Safitri & Afriyenti, 2020).

The results of other studies conducted by Soly & Wijaya (2018), Hakim & Abbas (2019) and Kurniawan & Suryaningsih (2017) show that firm size has no effect on earnings quality. However, contrary to the results of research conducted by Zatira et al., (2020) and Marsela & Maryono (2017), the results show that company size has a positive effect on earnings quality.

**Conclusion**

Based on the results of data analysis that has been carried out in the previous chapter regarding the effect of capital structure, profit growth, profitability and company size on quality, the following conclusions can be drawn:

a. Independent variables in this study consisting of capital structure, profit growth, profitability and firm size affect earnings quality. This is evidenced by the results of the Prob (F-statistic) of \(0.000036 \leq 0.05\) significance level.

b. The capital structure variable has a negative effect on earnings quality. This is evidenced by the t- statistic value of capital structure \(-2.199564 \leq 2.04227\) and the value of Prob. of \(0.0357 \leq 0.05\) with a regression coefficient of \(-0.605106\).

c. Profit growth variable has no effect on earnings quality. This is evidenced by the t- statistic value of profit growth \(-0.705612 \leq 2.04227\) and the value of Prob. of \(0.4859 \geq 0.05\).

d. Profitability variable has a negative effect on earnings quality. This is evidenced by the profitability t- statistic value of \(-5.585416 \leq 2.04227\) and the value of Prob. of \(0.0000 < 0.05\) with a regression coefficient of \(-7.643972\).

e. Firm size variable has no effect on earnings quality. This is evidenced by the t- statistic value of company size \(-2.028519 \leq 2.04227\) and the value of Prob. of \(0.0515 \geq 0.05\).

**Limitations**

This research has been carried out in accordance with scientific procedures and gives the result that there are only two accepted hypotheses out of the four proposed hypotheses. However, this research is not entirely at the level of absolute truth. The following are some of the limitations of this study:

a. This study only uses four independent variables, namely capital structure, profit growth, profitability and company size so that it cannot be used as a definite reference for the basis of decision making.

b. Adjusted-R Square with a value of \(0.507166\) indicates that the influence of the independent variable on the dependent variable is still relatively low.

c. The number of sample data is only 35 data consisting of 7 companies with an observation period of 5 years.

d. Companies that are sampled in this study only come from manufacturing companies in the food and beverage sub-sector so that the results cannot reflect other sector companies more broadly.
Recommendation

Based on the conclusions and limitations described above, some recommendations that researchers can give are as follows:

a. For other researchers, the results of this study can be used as a reference to increase knowledge in conducting research on variables of capital structure, profit growth, profitability, company size and earnings quality.

b. For stakeholders, the results of this study can be used as a source of knowledge and broaden their horizons about what factors affect the quality of profits for manufacturing companies in the food and beverage sub-sector.

References


