

## The Effect of Profitability, Liquidity, Profit Growth, and Leverage on Earning Quality (Empirical Study of Manufacturing Companies Listed on IDX Period 2017 - 2020)

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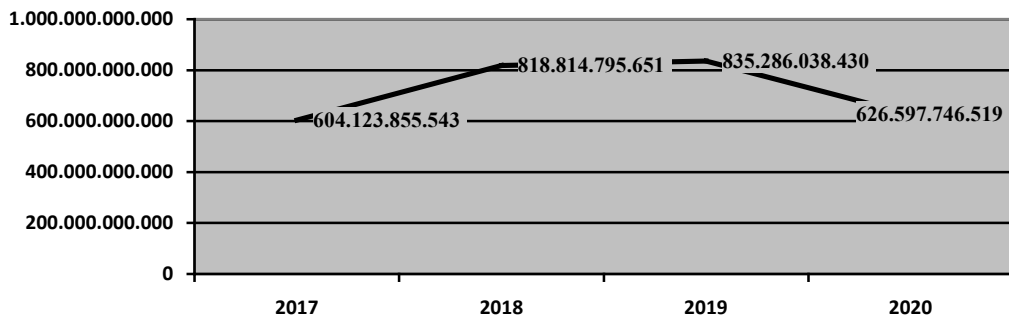
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Article Info	Abstract
Received May 14, 2022	<i>This research aims to analyze the effect of profitability, liquidity, profit growth, and Leverage on earning quality. The object of research is a manufacturing company that has been listed on the Indonesia Stock Exchange for the period 2017 to 2020. The amount of population is 118 companies. The method of selecting samples is purposive sampling, thus the number of samples was found is 93 samples. Data analysis techniques use multiple linear regression analysis techniques with SPSS 25 software. The analysis used in this research uses multiple linear regression analysis techniques with SPSS 25 software. The author gets five points of conclusion: 1) profitability can affect earning quality; 2) liquidity does not affect earning quality; 3) profit growth can affect earning quality, 4) leverage does not affect earning quality; 5) profitability, liquidity, profit growth, and leverage simultaneously affect towards earning quality.</i>
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### INTRODUCTION

Financial statements constitute one of the required reports for each company, it shows the results of a company's efforts over a period of time. The standard of financial accounting (SAK) explain that the company's financial statements consist at least of balance sheets, profit and loss statements, capital statements, cash flow statements, and records of financial statements. A company's financial report provides guidance for each company because it contains information that users can use in knowing the financial condition of a company. The esers of the financial statements consist of internal and external parties of a company, which have the same purpose, which is to utilize the information contained in the company's financial statements as a consideration in economic decision making. In the process of economic decision making, the

quality of the financial report is of the highest importance and concern to all users. Profit information is one of the main aspects that need to be seen in a company's financial statements. It is based because profit from the company must have good quality, thus the user of the financial report can assess the company's financial performance, and it can be used as basis for predicting company performance in the future (Silfi, 2016). Profit with good quality means having characteristics: reability, relevancy, and consistency (Luas et al., 2021). With such a quality profit, it means does not contain or interfere with anything, thus reflecting the company's true financial performance (Cindy et al., 2021).



Source: Stock Exchange Indonesia (BEI) [www.idx.co.id](http://www.idx.co.id)

**Figure 1. Profit growth of manufacturing companies listed on idx, 2017 – 2020**

Based on the figure 1 on the graph of profit growth of manufacturing companies from 2017 to 2020, there is a fluctuating condition in the last three years, from 2017 to 2019. But in the 2020 the manufacturing companies profit has decrease because the covid-19 plague. Based on that situation, the authors are interested in research using the company's financial data during that period. Some of manufacturing companies that have decreased or increased net profit. PT Arwana Citramulia Tbk which is a company in the field of maritime, glass, and porcelain industries that received a profit of Rp 2.15 trillion in 2019. At this figure, there was an increase of 9.15% from 2018 with a total of Rp 1.97 trillion. PT Arwana Citramulia Tbk (ARNA), also record that there was a net profit growth of up to 37.61% from Rp 156.62 billion in 2018, to Rp 215.53 billion in 2019. PT Japfa Comfeed Indonesia Tbk, the company focuses on animal feed, chicken farming, poultry management, and aquaculture, managed to record an income of Rp. 36.74 trillion which was successfully achieved in 2019. This amount increased by 8.03% from 2018 revenue, with a total of Rp 34.01 trillion. However, there was a decrease in net profit at PT Japfa Comfeed Indonesia Tbk (JAPFA) by 18.58% from Rp 2.17 trillion in 2018, making it worth Rp 1.77 trillion in 2019. PT Semen Indonesia Tbk, which is engaged in the cement industry, has record significant revenue growth in 2019, which was 31.55%. Therefore, revenue from SMGR is Rp 30.68 trillion in 2018, to Rp 40.37 trillion. However, the net profit obtained by Semen Indonesia actually decreased by 22.31%, which was originally worth Rp 3.08 trillion in 2018 to Rp 2.39 trillion in

2019 (Kontan, 2021). PT Unilever Indonesia Tbk which experienced a decrease in profit from 2020 of 3.11% from a value of Rp 7.39 trillion from 2019 to Rp 7.16 trillion (CNBC Indonesia, 2020).

Previous research that offered some of the variables can describes earning quality, is: Profitability (Setiawan (2017); Luas et al., (2021); Soly & Wijaya (2018)), Liquidity (Setiawan (2017); Luas et al., (2021); Silfi (2016)), Profit Growth (Anam & Afrohah (2020); Kurniawan & Nur (2020); Luas et al., (2021), Leverage (Setiawan (2017); Riska & Salma (2019); Hakim & Naelufar (2020)). From the variables that have been describes, there are some differences in the results. Profitability, Setiawan (2017); Luas et al., (2021); Soly & Wijaya (2018), in their research it has been explained that profitability can affect earning quality. Profitability is one of the indicators used to measure of financial performance in companies. Luas et al., (2021) explain that companies which have low profitability levels would describe a declining corporate performance. However, when a firm has a high profitability ratio, it is good to have its performance. However, research results were found differently from Mauliddiyah (2020), explains that return on assets (ROA), does not influenced the earning quality. Liquidity, Setiawan (2017); Luas et al., (2021); Silfi (2016), in their research it has been explained that liquidity can affect earning quality. Liquidity can indicate that the company is able to pay off short-term liabilities by using current assets. If the liquidity value is good, the company is considered to be able to finance short-term liabilities, so that profit management practices are not carried out and the profit obtained is a quality profit (Setiawan, 2017). However, research results were found differently from Wulandari et al., (2021), the results of their research explained that liquidity does not affect the earning quality. Profit Growth, Anam & Afrohah (2020); Kurniawan & Nur (2020); Luas et al., (2021), in their research it has been explained that profit growth can affect earning quality. The higher value of profit growth in the company, it can be indicated that the quality of profit is also high. This condition causes investors, as users of financial statements to give a positive response, in responding to profit quality information submitted by management (Kurniawan & Nur, 2020). However, research results were found differently from Silfi (2016), which explains that profit growth cannot have an influence on the earning quality, because the profit growth in this study does not describe a meaningful influence on the company's profit because the company is experiencing growth on its profits, so it can not be called the company's financial performance either. Leverage, Setiawan (2017); Riska & Salma (2019); Hakim & Naelufar (2020), in their research it has been explained that leverage can affect earning quality. The company can be said to be good if the company has capital that is greater than the debt owned. The debt owned by the company is related to the benefits that will be obtained by the company. However, research results were found differently from Muniarti et al., (2018), leverage does not affect the earning quality, because companies that have high debt can cause high leverage, so that the company, especially management will be encouraged in an effort to improve

the company's performance, that it can pay its debts.

Agency theory is a theory that describes the relationship between the two parties, called principals (owners) and agents (management). Where the principals give an agent authority to make a decision by using a principled name (Jansen & Meckling, 1976). This theory has the assumption that a conflict of interest between principals and agents can occur because each individual seeks to defend his or her own interests. The company's management was the most likely contributor to the production of information, since it had more than the external. As some cases illustrate, the management of the company sometimes does not present information regarding the financial condition of the company in real terms, in order to keep its interests one-sided. Such a result would be judged to create misinformation between principals and agents, make the different conditions between principals and agents. Therefore, management sometimes practices profit management. Profit management practices performed by the agency must be consistent with current rules. When the practice is conducted unregulated, it can result in manipulation of financial statements, particularly with regard to company profit information. Thus, they could be responsible for the low earning quality. Low earning quality means to describe the financial performance of the company is not delivered in real terms and can result in errors in decision making by the finance statement user.

According to Spence (1973), the signaling theory is related to signaling or signaling performed by the one doing the signaling (information owner) to the receiver (information user). The information given relates to something relevant so that it can be used by the recipient. Management signals are performed to inform users that the company is better than any other company. Profit information is called one of the signals that are important to external (investors). That is because profit information can be found about the company's condition. If the information in the financial statements published by the management is subject to or under adverse or adverse conditions and does not fit within the company, it can influence profit quality to be low, so that investors are less interested in making investments. However, if the profit information contained in the financial report is informed by good management and according to the company's true condition. Thus, it can be an attract for investors to invest in the company. Thus, it is understood that a company report is expected to contain good information so that the company's management can give a good signal to make it possible for investors to decide to invest and to make companies to have good prospects in the future.

The earning quality may be interpreted as the profit's ability found in financial statements and used to predict future profits. Penman & Zhang (2002), one way to determine the quality of a company's profit on a financial report is to look at the relationship between cash flow and accounting earnings. As the relationship between cash flow and accounting profit increases, the company's profit quality is higher. Thus, profit is one of the critical components needed for economic decision-making. For investors, the profit information in the financial

statements is important because investors can know the company's true condition. The higher the profit quality, the better the financial statements.

Consistent profitability levels can be used as a corporate benchmark and an assessment to the users of financial statements that they can stay in business by adopting returns instead of risk risks, toto (2008). Profitability measures are receiving return on assets because of those estimates, investors will want to know how the company's management will use its assets to provide profit. High profitability is calculated to affect profit quality. It would indicate that corporate raises are likely to be increasingly profitable. Profitability divides the net profit obtained from the period with the firm's total assets. When returns are high, they are high. When high corporate profits are obtained, management will not manipulate profits, so that the profit produced and reported on in financial statements is a quality one. Therefore, profitability can affect of earning quality.

If the value of the liquidity ratio is assessed more than one, it is indicated that the company's financial performance is good. This is because, the number of current assets has exceeded the amount of short-term liabilities of the company (Sukmawati, 2019: 88). This is because, the number of current assets has exceeded the amount of short-term liabilities of the company. If the company's liquidity ratio is high, it can provide an increase to the company's chances of paying and solving problems related to debt. Liquidity has a relationship with operating cash flow. If the liquidity ratio value is high, then the current assets owned by the company also have a high value. If the current asset value is high, it can have an impact on the operating cash flow owned by the company, so that if the high-value operating cash flow is compared with net profit, it obtains a high profit quality value. Therefore, the high value of liquidity can affect the value of profit quality which is also high. Therefore, liquidity can affect of earning quality.

The growth of profits contained in the company, can provide that the company's management has succeeded in managing the resources owned by the company effectively and efficiently. In certain periods, the company can experience fairly high profit growth when juxtaposed with the company's average profit. However, in the next period the company can also experience a decline in profit far below the average profit. If the profit growth ratio is higher, it will be followed by the high quality of profit. Conditions like this can cause the company to get a positive response from investors. Therefore, the profit displayed in the company's financial statements, is a real profit. This is considered to give confidence to investors that companies that have good profit growth, can make the quality of profits in financial statements also good. Therefore, liquidity can affect of earning quality.

Leverage is useful in helping investors to know the amount of debt used by the company in financing the company's operational activities. Companies with a high level of leverage, indicating that the company's funding depends on outside loans. If the leverage ratio of a company is high, the higher the risk borne by the owner of the company, (Sukmawati, 2019: 93). The high level of leverage owned

by the company, can lead to bankruptcy and lower investor confidence in the company because the company will be considered to prioritize debt payments over dividend payments. Low profit quality is suspected to be a profit management practice carried out by the management. This does not happen, if the high leverage can be offset by increased profitability and stability of the company's financial condition that is quite controlled and has an impact on the stability of the company's profit, then there is no profit management practice that is reported to be a quality profit. Therefore, leverage can affect of earning quality.

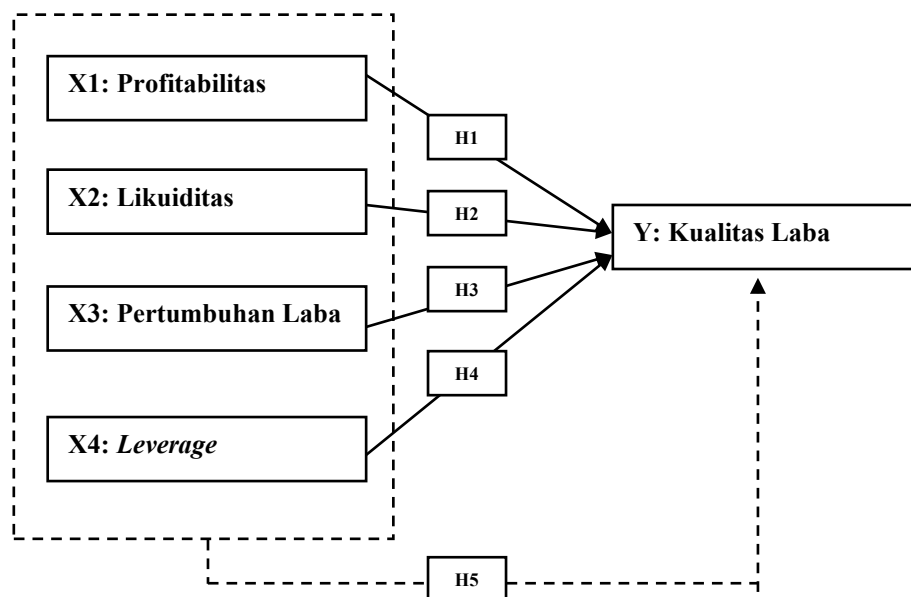
**METHODS**

**Data Type and Source**

This research is a quantitative research. This study consists of 4 independent variables (X), namely: profitability, liquidity, profit growth, and leverage, as well as the dependent variable, namely earning quality. The research uses secondary data which is accessed by the report through the website www.idx.co.id.

**Research Model**

This research model can be described as follows:



**Figure 2. Research Model**

Description:

Partial correlation: —————> Simultaneous correlation: - - - - ->

**Variable Measurement**

**Dependent Variable (Y)**

The quality of it is an accounting profit that is set out in its right and accurate state, thus according to company financial conditions, which can then be used in predicting profits in later periods. The quality of the profit promoted with earning quality, taking measures used by penman & zhang (2002):

**Independent Variable (X)**

Profitability is a ratio used to measure and assess the company's profitability. Return on assets to the profitability, picking up measures used by Brigham & Houston (2014):

Liquidity is a financial ratio used to know and assess a company's ability to meet short-term obligations when it is due. Liquidity projected with current ratio, taking measurements by Kasmir (2018: 135):

$$\text{Liquidity} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Profit growth is a financial ratio used to find out and compare net profit in the current year with net profit in the previous year. Profit growth measure with Yit, taking measurements by Sofyan (2015: 310):

$$\text{Profit Growth} = \frac{(\text{Current Period Net Income} - \text{Past Period Net Income})}{\text{Past Period Net Income}} \times 100\%$$

Leverage describes the extent of the relationship between the company's debt and the company's assets and capital. Leverage projected with debt to equity ratio, taking measurements by Kasmir (2018: 113):

$$\text{Leverage} = \frac{\text{Total Liability}}{\text{Total Equity}} \times 100\%$$

### **Population and Sample**

The population of this study are companies listed on the Stock Exchange Indonesia (IDX) in 2017 - 2020. The population is 185 data. Sampling technique using purposive sampling by determining a representative sample that is adjusted based on the research criteria.

The sample criteria include: the manufacturing company listed at the Indonesian Stock Exchange period 2021, the manufacturing company is consistently listed in the Indonesian Stock Exchange from 2017 to 2020, and the company that presents the annual financial report using the rupiah currency during the 2017 to 2020. Based on the criteria, the sample in this study amounted to 118 observational sample data, for the 4 years research period with details of manufacturing companies totaling 472 companies.

### **Data Analysis Techniques**

This study uses multiple linear regression analysis, with SPSS help ver. 25. This study also uses Descriptive Statistical Analysis. Before performing the regression analysis, the researcher first tested the Classical Assumptions which consisted of normality, multicollinearity, autocorrelation, and heteroscedasticity tests. Hypothesis testing was carried out using the Simultaneous Significant Test (F Test), Partial Significance Test (T Test) and Coefficient of Determination Test (R<sup>2</sup>).

## **RESULTS AND DISCUSSION**

### **Descriptive Analysis**

Descriptive statistical analysis may provide an idea of the whole variable studied with SPSS processing. Descriptive statistical analysis would describe data as easily understood information. Data on variables is generated from financial reports of manufacturing companies that have been published in the old Indonesia stock exchange (www.idx.co.id) during the 2017. The number of samples used in descriptive statistical analysis was 93 samples, with the number of data used by 372 data. This is because 100 data are outlier, so the 100 data have been released and are not used in research. The score is given using three criteria, which are low, moderate, and high. Here are the results of each variable class interval calculations:

**Table 1. Calculation of research variable class intervals**

Class	Variable				
	Earning Quality	Profitability	Liquidity	Profit Growth	Leverage
Minimum Score	-8,20	-2,64	0,01	-53,69	-5,21
Maximum Score	16,41	8,30	208,44	48,52	23,92
Discrepancies Score	-24,61	-10,94	-208,43	-102,21	-29,13
Class Width	-8,203	-3,647	-69,477	-34,070	-9,710
Class I	0,003	1,007	69,487	-19,620	4,500
Class II	8,21	4,65	138,96	14,45	14,21
Class III	16,41	8,30	208,44	48,52	23,92

Source: Data Processed Using SPSS ver. 25 (2022)

To find out the predicate of each variable used in the research, an analysis of the frequency distribution that has been done on the table, so that the value of each variable can be known class. The criteria of each class are class I for the low category, class II for the medium category, and class III for the high category. The following are the criteria results of each class interval and the variable used:

**Table 2. Summary of research variable criteria**

Class	Criteria dan Range Class				
	Earning Quality	Profitability	Liquidity	Profit Growth	Leverage
I	-8,20 – 0,003	-2,64 – 1,007	0,01 – 69,487	-53,59 – -19,62	-5,21 – 4,50
II	>0,003 – 8,21	>1,007 – 4,65	>69,487 – 138,96	>- 19,62 – 14,45	>4,5 – 14,21
III	>8,21 – 16,41	>4,65 – 8,30	>138,96 – 208,44	>14,45 – 48,52	>14,21 – 23,92

Source: Data Processed (2022)



**Table 3. Frequency distribution table**

Variabel	Min	Max	Mean	Low	Medium	High
<b>Earning Quality</b>	-8,20	16,41	1,05	76	295	1
<b>Profitability</b>	-2,64	8,30	0,06	371	0	1
<b>Liquidity</b>	0,01	208,44	3,20	370	1	1
<b>Profit Growth</b>	- 53,69	48,52	-0,15	4	200	168
<b>Leverage</b>	-5,21	23,92	1,11	360	11	1

Source: Data Processed (2022)

Earning quality shows a minimum of 8.20 and a maximum value of 16.41 and an average of 1.05. Negative value on the profit quality variables because some companies suffer losses or deficit from the operating cash flow. Based on the frequency distribution tables, 76 companies are in low category, 295 companies are in moderate category, and one company is in high category, so 79.30% of profit quality variables have a moderate profit quality rate.

Profitability has pointed to a minimum of -2.64, a maximum of 8.30, and an average of 0.06. Negative value on the variables of profitability indicates that some companies are unable to profit net or suffer losses within that period, which leads to negative value in return on assets. Based on the frequency distribution tables, 371 companies are in low categories, none are moderate, and one is high, so 99.73% of corporate profitability variables have a low profitability rate.

Liquidity shows a minimum value of 0.01 and a maximum value of 208.44 and an average value of 3.20. Companies with a current ratio greater than 1.0 times then the company has a capable ability to pay off its short-term obligations. Conversely, if the company with a current ratio below 0.1 times then the company in paying off short-term obligations is questionable. Because the value of current assets is smaller than the current liability value. In addition, if the current ratio value is more than 3.0 times, it cannot be said that the company is in good financial condition, because it is possible that the company cannot allocate its current assets optimally, and cannot manage its capital properly. Based on the frequency distribution table, there are 370 companies in the low category, one company is in the medium category, and one company is in the high category, so that in the liquidity variable of 99.46% of companies have a low level of liquidity.

Profit growth shows a minimum of -53.69 and a maximum value of 48.52 and an average of -0.15. Negative value in profit growth variables results from several companies that suffer losses, both during walking and past periods. If the profit growth rate is close to 1 or is worth 1, the profit growth of the company is good. Based on the frequency distribution tables, there are 4 companies in low

categories, 200 in moderate categories, and 168 in high categories, so 53,76% in profit growth variables have a moderate rate of profit growth.

Leverage shows a minimum value of -5.21 and a maximum value of 23.92 and an average value of 1.11. Negative values in leverage variables are caused by negative values in equities. A negative equity value may indicate that the company in that period did not earn a net profit or suffered a loss. If the net profit value is negative or suffers a loss, it allows the income from the company cannot be used in paying off its obligations. Based on the frequency distribution table, there are 360 companies in the low category, 11 companies are in the medium category, and one company is in the low category, so that in the leverage variable of 96.77% of companies have a low level of leverage.

**Classical Assumption Test Result**

**Normality Test**

Normality testing is used to know if it's in the regression model, the disruptive variable (Ghozali, 2018). Normality tests using Kolmogorof - Smirnorf (K-S), the following are the results of normal tests:

**Table 4. Normality test**

	<b>Unstandardized Residual</b>
<b>N</b>	372
<b>Asymp. Sig. (2-tailed)</b>	0.169

Source: Data Processed Using SPSS ver. 25 (2022)

The number of data used in the normality tests is the number of data which has reduced outlier data. The number of data after issuing outlier data to 372 data, so the number of companies it samples after issuing outlier data is 93. In table 4, known value asymp. Sig. (2-tailed) sum of 0.169. Because the value of asymp. Sig. (2-tailed) is larger than a 0.05 degree of significance, so it can be drawn to the conclusion that normality tests have been met.

**Multicollinearity Test**

Multicollinearity tests are used to find out if in regression models there is a correlation between independent (free) variables. The absence of correlations between independent variables (free variables) in research, is a good model in regression analysis (Ghozali, 2018). Independent variables that are free from multicollinearity if they have a tolerance value of > 0.10 and VIF < 10. Here are the results of the multicollinearity test:

**Table 5. Multicollinearity test**

	<b>Tolerance</b>	<b>VIF</b>
<b>1 (Constant)</b>		
Profitability	.997	1.003
Liquidity	.998	1.002

Profit Growth	1.000	1.000
Leverage	.999	1.001

Source: Data Processed Using SPSS ver. 25 (2022)

Based on the results of the multicollinearity test obtained in table 5, it can be seen that the independent variable (free variable) in the study got a tolerance value of  $> 0.10$  and a VIF value of  $< 10$ . Based on these results, it can be concluded that there is no multicollinearity between independent variables in the regression model used in the study.

**Autocorrelation Test**

In this study, the autocorrelation test used was the Durbin Watson (DW) test. The result of decision-making is autocorrelation in the regression model used is to look at the DW table at  $\alpha = 5\%$ . Here are the results of the autocorrelation test:

**Table 6. Autocorrelation test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.836 <sup>a</sup>	.699	.695	.013068	1.914

Source: Data Processed Using SPSS ver. 25 (2022)

Based on the autocorrelation test in table 6 above, with the test method used is Durbin Watson (DW), obtaining a value of 1.914. The results of the Durbin Watson test obtained will be juxtaposed with durbin Watson's table at a significance of 0.05 or 5%. In looking for dL values and dU values, you can find out how many total samples are used (n) and the number of variables (k) used in the study. The number of samples used (n) as many as 372 samples and the number of variables as many as 5 variables, it can be known in the Durbin Watson table that the value of dL is 1.81043 and the value of dU is 1.85296. Decision making in the Durbin Watson test, if a model does not occur autocorrelation is when the dU value is  $d < 4 - dU$ . Based on this formulation, the results obtained in the Durbin Watson test in this study were  $1.85296 < 1.914 < 2.14704$ . The results have met the assumptions in the autocorrelation test, so it can be concluded that in the model used, there is no autocorrelation.

**Heteroscedasticity Test**

The heteroskedasticity test aims to find out whether in regression models there is a variance inequality derived from one abattoir to another (Ghozali, 2018). Heteroskedasticity tests are performed on the type of time series data. The Glejser test was used in heteroskedasticity tests in this study, with a significance level of 0.05 or 5%. A study is said to be free from heteroskedasticity, if it has a significance value of  $> 0.05$ . Here are the results of the heteroskedasticity test:

**Table 7. Heteroscedasticity test**

Model	t	Sig.
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Model		t	Sig.
1	(Constant)	24.900	.000
	Profitability	.574	.566
	Liquidity	.438	.661
	Profit Growth	-.007	.994
	Leverage	-.025	.980

Source: Data Processed Using SPSS ver. 25 (2022)

In table 7 of the results of the heteroskedasticity test, it can be seen that the heteroskedasticity test results for each independent variable used, resulting in a significance value (Sig.) greater than 0.05. These results have met the assumptions in the heteroskedasticity test, so it can be concluded that in the model used, heteroskedasticity cannot be obtained.

**F Test**

Simultaneous influence tests are used to find out whether independent variables jointly affect dependent variables. Here are the results of the statistical test F:

**Table 8. Simultaneous F test**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.146	4	.037	213.843	.000 <sup>b</sup>
	Residual	.063	369	.000		
	<b>Total</b>	<b>.209</b>	<b>373</b>			

Source: Data Processed Using SPSS ver. 25 (2022)

Based on the simultaneous test F in table 8, it can be known that the significance value of  $0.000 < 0.05$ , so it can be drawn the conclusion that the variables of profitability, liquidity, profit growth, and leverage simultaneously affect the earning quality.

**T Test**

Statistical t test explains how far the influence of one independent variable individually is limited to dependent variables (Ghozali, 2018). Decision making on the statistical test t is that if the Value of Significance (Sig)  $\leq 0.05$  or t calculates  $>$  t table then there is an influence between the free variable on the bound variable and vice versa. Here are the results of the statistical test t:

**Table 9. Statistic T test**

Model		B	Std. Error	Beta	t	Sig
1	(Constant)	39.369	.001		54346.507	.000
	Profitability	.000	.000	-.830	-29.000	.000
	Liquidity	.000	.000	.030	1.043	.298
	Profit Growth	7.098E-6	.000	.078	2.712	.007

<i>Leverage</i>	-4.630E-	.000	-.003	-.118	.906
	7				

Source: Data Processed Using SPSS ver. 25 (2022)

Based on the hypothesis testing conducted, it can be seen that the significance value of the profitability variable has a value of 0.000. The value is less than 0.05, so it can be interpreted that profitability projected by return on assets can have an influence on profit quality variables, so it is concluded that hypothesis one (H1) is accepted. The company's growing profitability, can be the cause that the quality of the company's profit also increases. This is because the greater the level of profitability, then followed by the company's profitability which is also getting bigger. This is in line with research conducted by Luas et. al., (2021), profitability is the level of the company's ability to make a profit. If the company with a high level of profitability, then the profit obtained is also high, so that the high or low profitability value of a company can be seen in the high or low profit obtained by the company. If the level of profitability is high, then the company will not practice profit manipulation, so the profit presented in the company's financial statements is a quality profit.

Based on the hypothesis testing conducted, it can be seen that the significance value of the liquidity variable has a value of 0.298. The value is greater than 0.05, so it can be interpreted that liquidity projected with current assets cannot have an influence on the variables of profit quality, so it is concluded that hypothesis two (H2) is rejected. It can happen because the high liquidity value does not necessarily illustrate that the value of current assets that have a relationship with operating cash flow is positive. It can be seen from some companies, with a high current asset value has a negative cash flow value, so the high liquidity value has no effect on the quality of profit. This is in line with research from Suryandari (2021), that liquidity has no effect on the quality of profits, because with a high level of liquidity cannot be followed by the same high level of profit quality.

Based on the hypothesis testing conducted, it can be seen that the significance value of the profit growth variable has a value of 0.007. The value is smaller than 0.05. It can be interpreted that the profit growth projected with Yit can have an influence on the variables of profit quality, so it is concluded that hypothesis three (H3) is accepted. If the company's profit increases or increases, it can give a sign that the company's condition is good. The profit growth rate in a company can be used as a clue that the management has been successful in managing the resources owned by the company effectively and efficiently. Profit growth can be used as one of the clues in knowing the success of the company's performance (Septiyani et al., 2017). This is in line with research conducted by Kurniawan and Aisah (2020), that profit growth can affect the quality of profits. This shows that, the higher the profit growth rate in a company, the higher the quality of profit generated by the company. This situation is alleged to give a positive impression from investors as users of financial statements in responding

to profit quality information. Therefore, the profit that has been generated by the company is the real state of the company. This condition make investors' confidence increase in companies that experience profit growth, thus causing high profit quality.

Based on the hypothesis testing conducted, it can be seen that the significance value of the leverage variable has a value of 0.906. This value is greater than 0.05. It can be interpreted that the leverage projected with the debt to equity ratio cannot affect the variable quality of profit, so it is concluded that hypothesis four (H4) is rejected. Leverage has no effect on the quality of profit because, the high value of leverage is not always followed by a high profitability value. Some companies with high leverage values tend to have low profitability values and even negative values, so the high value of leverage can lower the value of profit quality. In addition, the high leverage value owned by the company, allegedly can give doubt to investors that the company is in good condition. This is in line with Rahmania's research (2019), that the measurement of leverage ratio with debt to equity ratio proxies cannot affect the quality of profits. This is because if the company with a high level of debt, is considered to pose a risk of default in the future, so there is a tendency that investors who have a poor response to the company. The higher the leverage ratio value, it will reduce the quality of the company's profit.

**Coefficient Determination (R Square/R<sup>2</sup>)**

The coefficient of determination is a measuring instrument used to determine how far the model's ability to describe variations in dependent variables (Ghozali, 2018). The value of the coefficient of determination is between 0 – 1 (zero to one). A small R<sup>2</sup> value indicates that an independent variable is capable of describing a limited dependent variable and a value that is close to one, indicating that an independent variable provides most of the information needed to predict a dependent variable. Here are the results of the R Square determination test:

**Table 10. Coefficient determination test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836 <sup>a</sup>	.699	.695	.013068

Source: Data Processed Using SPSS ver. 25 (2022)

Based on the determination coefficient test in table 11, the Adjusted R Square value was 0.695. This suggests that 69.5% of the independent variables used in the study could shed light on the dependent variables in the study, while the remaining percentage of 30.5% was explained by other variables beyond the variables used in the study.

**CONCLUSION**

The study has been designed to determine empirical effects on profitability, liquidity, profit growth, and leverage on profit quality. Studies have shown that

profitability variables can influence the quality of profit, liquidity variables can influence the quality of the spider, profit growth variables can influence the quality of the spider, and leverage variables can influence the quality of the profit. And variables of profitability, liquidity, profit growth, and leverage are simultaneously affecting profit quality. Some Suggestions given by researchers, the large amount of research produced by outlier, hence for further research can increase the span of research, so that when outlier data disposal is large enough, there is plenty more. It is hoped that subsequent research may add other and/or add to other research variables and/or mediate, so that the results can be an additional reference to further researchers.

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