

Effect Of Liquidity, Profitability, Company Size, and Leverage On Profit Quality In Sub-Sector Manufacturing Companies Automotive Period 2018-2022

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Abstract.

The purpose of this study was to determine the effect of liquidity, profitability, firm size, and leverage on earnings quality. This type of research is a qualitative research with a literature review study approach. The population of this study is made up of manufacturing firms in the automobile subsector that are listed on the Indonesia Stock Exchange for the years 2018 through 2022. The results show that liquidity, profitability, and firm size have a significant effect on earnings quality. While leverage has no effect on earnings quality.

Keywords: *liquidity, profitability, firm size, leverage, earnings quality*

Abstrak.

Tujuan dari penelitian ini adalah untuk mengetahui pengaruh likuiditas, profitabilitas, ukuran perusahaan, dan leverage terhadap kualitas laba. Jenis penelitian ini adalah penelitian kualitatif dengan pendekatan studi literatur. Populasi penelitian ini adalah perusahaan manufaktur subsektor otomotif yang terdaftar di Bursa Efek Indonesia dari tahun 2018 sampai dengan tahun 2022. Hasil penelitian menunjukkan bahwa likuiditas, profitabilitas, dan ukuran perusahaan berpengaruh signifikan terhadap kualitas laba. Sedangkan leverage tidak berpengaruh terhadap kualitas laba.

Kata kunci: Likuiditas, profitabilitas, ukuran perusahaan, leverage, kualitas laba

INTRODUCTION

The financial report is a report that contains the recording of all financial transactions, the accounting cycle, which is useful for knowing the condition of the company which will later be used to analyze the company's internal and external environment (Telambanua S.W.K. & Purwaningsih, 2022). Financial reports are the most crucial instrument for resolving issues with business growth, and they play a part in the process of evaluating a company's success. High-quality financial reports are required before being disclosed to parties using financial information because parties using financial information need information that is comprehensive, transparent, and provided in a timely manner (Charisma O. W. & Suryandari, 2021).

The main objective of the establishment of the company is to obtain the maximum possible profit and prosperity for the company's shareholders. So that profit is an important aspect of operational activities carried out by a company (B. Wulandari et al., 2021). Company performance can be seen from the quality of earnings. The more profitable the company is, the more successful it is able to maximize the management of its equity. The factors that influence the quality of profits generated by the company include transparency of financial reporting, management profit, investor interest, profitability, liquidity, leverage, and company size (Reza Refki Tanggo & Salma Taqwa, 2020).

Leverage has been identified as a factor affecting earnings quality. Leverage is used to find out how to finance each company's assets using debt. Companies with high leverage show that they use more debt structures compared to capital or asset structures (Purnomo, 2023), Companies with high leverage identify the quality of profits generated is low (Fedia, 2019), claiming that the quality of the corporate profits generated is negatively impacted by leverage. However, the research results of (Darabali & Saifitri, 2016; Fahlevi, 2016; S. Wulandari & Aris, 2018) demonstrating that leverage has no impact on the quality of earnings.

The automotive sector in Indonesia is currently experiencing rapid development. This development can certainly be seen from the increasing number of automotive companies in Indonesia and the higher consumer demand with the emergence of new vehicles with trendy types and brands among young people today. This can be seen by

the increasing number of world automotive manufacturers investing in Indonesia (Dewinta & Setiawan, 2016). The Ministry of Industry stated that The gross domestic product (GDP) is significantly impacted by the car industry, in particular to non-oil and non-gas GDP 3.98 percent in 2019 and it is only natural for the government to pay attention to the automotive industry. The increasing growth in the automotive sector can also affect large companies that focus on this industry competing to attract the attention of investors to invest (Hamdani, 2020).

The automotive sector is interesting to study regarding its profit growth before and during the Covid 19 pandemic. A sector that has always experienced an increase in sales every year due to the Covid 19 pandemic has experienced a decline in sales. based on vehicle sales data in Indonesia in the 2nd quarter of 2020 when compared to 2019 before the pandemic, there was a decline. Several studies stated that the decline in sales of the automotive sector in Indonesia was caused by travel restrictions and social restrictions (PSBB) in several regions (Sejati et al., 2021). With the enactment of the PSBB, almost all sectors felt its impact, one of which was in the automotive sector where during the Covid 19 pandemic, car and motorcycle sales decreased by more than 90% in April and May 2020. The following is data on vehicle sales in the second quarter of 2019 and 2020, the Indonesia Stock Exchange will list the automotive sector (Herlin et al., 2022).

From this explanation the researcher took the title "The Effect of Liquidity, Profitability, Company Age, Leverage on Profit Quality at the Company Automotive listed on the Indonesia Stock Exchange for the 2018-2022 period"

LITERATUR REVIEW

Profit Quality

Firm value can be seen from the quality of earnings earned. Earnings quality is an important Indicator of a company's financial performance. Earnings quality can be interpreted as a capacity of a business to occasionally produce steady and regular revenues. Good earnings quality indicates that the company has the ability to generate stable and sustainable income. Earnings quality is the single most important indicator of a company's financial working practices. Earnings quality can be seen as the main business tool in producing consistent products

Good earnings quality shows that the company has the capacity to generate stable income in the long term. Earnings quality can be affected by various factors, including business strategy, risk management, industry per capita spending, and ongoing regulations (Qonita et al., 2022).

Leverage

Leverage is used to see the amount of debt paid by the company to external parties. High or low leverage affects the quality of company earnings. The higher the leverage, the less capable the company is of paying debts, which results in unattractive financial reports for external parties. To cover up high leverage, companies often manipulate company financial reports to make them look attractive to external parties (Azizah & Asrori, 2022). Leverage is a ratio that assesses a company's capacity to meet all of its short- and long-term obligations (Maulita & Dian, 2022). Variable Leverage can be calculated using the formula:

$$DER = \frac{\text{Total Liabilitas}}{\text{Total Ekuitas}}$$

Company Size

A scale that displays company size is called company size. In general, Total assets are a proxy for a company's size. Research results (Pratiwi, 2021), (Zulman & Abbas, 2019) claimed that a company's scale had a considerable detrimental impact on the quality of its earnings, in contrast to the research results (Hijriyani, 2017) determined that the size of the company affects the quality of the earnings. Meanwhile, the results of Kurniawan & Suryaningsih's (2018) According to study, a company's scale does not improve the quality of its earnings. (Erawati & Hasanah, 2022a). The formula for estimating the size of a corporation is:

$$\text{Size} = \text{Ln}(\text{Total Assets})$$

Profitability

Profitability must receive special attention because it can estimate the company's risk taking and characteristics well so that it can distinguish between performance that is tied to funding decisions and investment (Reza Refki Tanggo & Salma Taqwa, 2020). Profitability is a company's main tool for generating business income with a strong return

on investment using relatively small contracts. A high rate of return will be able to meet most of the funding needs with the company's internal funds. Profitability has an impact on product quality because it has the potential to encourage investors to make investments that have an impact on product quality (Purnomo, 2023), The level of net profit a business can generate while conducting its activities is known as profitability. The formula of profitability is:

$$ROA = \frac{Laba Bersih}{Total Aset}$$

Liquidity

The liquidity ratio demonstrates a company's capacity to fulfill commitments or settle short-term debt. High liquidity indicates that they see continued growth. to raise a company's share price among investors and on the credit market, the company must have a higher level of trust in its creditors (Soleman et al., 2022). Liquidity can be obtained using the following formula:

$$Current Ratio = \frac{Current Assets}{Current Liabilities}$$

RESEARCH METHOD

This study uses a literature review approach with quantitative methods with secondary data. This study used a literature review as its method, which is a literature search conducted with the help of Google Scholar. Manufacturing businesses in the automotive sector that were listed on the Indonesia Stock Exchange (IDX) between 2019 and 2021 made up the study's sample. Up to 27 manufacturing enterprises that matched the sample criteria were found using a purposive sampling technique for the sample selection. Techniques for data analysis in this situation Multivariate linear regression analysis was used in this study.

RESULTS AND DISCUSSION

In research (Nugroho & Radyasa, 2020), (Erawati & Sari, 2021), (Luas et al., 2021), (Telambanua S.W.K. & Purwaningsih, 2022) and (Kartika et al., 2023) states that liquidity does not affect the quality of company profits.

Because the quality of earnings can be seen in terms of operating cash flow, so that if the liquidity is higher, even the quality of a company's earnings cannot be guaranteed to be high. In contrast to research (Septiano et al., 2022) and (Merpaung, 2019) which state that liquidity has a negative effect on the quality of company profits. Whereas in research (Safitri & Afriyenti, 2020), (Qonita et al., 2022), (Yuliana & Fauziah, 2022), (Kopa, 2021), (Ardianti, 2018), (Erawati & Hasanah, 2022) stated that liquidity has a positive influence on earnings quality. Liquidity can be benchmark of the company's creditors' confidence in the ability of short-term debt to mature.

The ability of a firm to generate profits is referred to as profitability, and the higher the level of profitability, the better the company's performance and the more favorably it is viewed by investors. so that the company's earnings appears to be high-quality. In contrast, the corporation is less able to manage the capital it receives if the value of profitability declines or is low. In research (Erawati & Sari, 2021), (Qonita et al., 2022), (Telambanua S.W.K. & Purwaningsih, 2022), (Maulita & Dian, 2022), said that profitability had a big impact on the quality of a company's profits. Unlike his research (Erawati & Hasanah, 2022b), (Syarli. Z. A, 2021), (Luas et al., 2021), It claims that profitability has no bearing on the standard of a company's earnings. Because profitability is not the only factor that affects the quality of earnings in a company.

In research (Lusiani & Khafid, 2022), (Luas et al., 2021), (Azizah & Asrori, 2022), (Telambanua S.W.K. & Purwaningsih, 2022), claimed that a company's size had no bearing on the kind of its profits. The size of a large company also has a large risk and operational costs are also large. On the other hand, small businesses will have a harder time growing because their operations are less visible to the general public. In contrast to research (Safitri & Afriyenti, 2020), (Syarli. Z. A, 2021), (Yuliana & Fauziah, 2022), (Kopa, 2021) claims that the size of the company has an impact on the quality of the earnings.

Large businesses must be capable of taking stakeholders' interests into account and supporting the business to produce high-quality earnings. According to the results of research from (Merpaung, 2019) The results indicate that leverage has a detrimental impact on the quality of earnings. Because if the company's assets are larger and are paid for by debt rather than its own assets or capital, if the corporation is unable to maintain a balance in managing its capital, then the role of investors will decline. The role of investors should be maximized so that it does not have an impact on management tendencies in earnings management.

Whereas in research it is the same as research (Nugroho & Radyasa, 2020) It claims that the quality of a company's profits is significantly impacted by leverage. In research (Maulita & Dian, 2022; Syarli. Z. A, 2021; Telambanua S.W.K. & Purwaningsih, 2022) claims that the quality of a company's profitability is not materially affected by leverage. Because of the significant debt to external corporations, the company's financial statements appear unattractive, which lowers the quality of the earnings as a result of the excessive leverage.

CONCLUSION

Profit can be said to be of good quality if the company's level of liquidity is good. Liquidity itself is assessed using a proxy current ratio. So that if the liquidity value is good, Consequently, the business does not need to engage in earnings management because it can fund its present liabilities so that profits can increase produced to be of high quality. The size of a company's assets serves as a proxy for its size. It is possible to conclude that a company's size also influences the standard of its earnings. So that currently investors solely in making their decisions do not only look at the profit and loss position of the company but look at the company's own liquidity position, so that profitability itself does not have a significant effect on earnings quality. While the leverage itself also has no impact on the quality of earnings. This suggests that despite the company's substantial debt, it a spur by management to maintain its current asset position. This is important because high debt must be balanced by a good current asset position. The findings demonstrated that earnings quality is significantly influenced

by liquidity, profitability, and business size. While profits quality is unaffected by leverage.

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