

THE EFFECT OF LIQUIDITY LEVERAGE AND COMPANY SIZE ON EARNINGS QUALITY WITH PROFITABILITY AS A MODERATION VARIABLE



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Abstract

This research aims to determine the effect of leverage, liquidity, and company size on earnings quality with profitability as a moderating variable. This type of research is quantitative research using secondary data obtained from the Indonesia Stock Exchange (IDX) website and processed using SPSS 25. The population in this research is energy sector companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2022 period. The research sample was taken using a purposive sampling method and a sample of 27 companies was obtained which was observed for 4 years after deducting outlier data with extreme values, the total research data processed was 100 data. The data analysis technique used is multiple linear regression analysis. The results of this research show that: (1) Leverage does not affect Earnings Quality. (2) Liquidity does not affect Earnings Quality. (3) Company size has a negative and significant effect on Earnings Quality. (4) Profitability cannot moderate Leverage on Earnings Quality. (5) Profitability can strengthen the influence of liquidity on earnings quality. (6) Profitability can strengthen the influence of company size on profit quality.

Keywords: Earnings Quality, Leverage, Liquidity, Company Size, Profitability

INTRODUCTION

Financial reports are the result of a series of accounting processes that are useful for communicating the company's financial performance to interested parties as well as a form of accountability for the use of resources entrusted to management. Statement of Financial Accounting Concepts (SFAC) Number 8 September 2010 states that profit information is the main element in financial reports. Therefore, the financial reports prepared must be relevant so as not to mislead users of financial reports in making decisions, one of which is investment decisions. Investors tend to invest in companies that earn positive profits. However, reported profits do not necessarily reflect the actual situation, for example, because there is a management incentive to manipulate profits so that the company's performance and value remain good. Based on this, other things are needed that can be used to see and assess company performance, one of which is earnings quality (Fedia et al., 2019).

Earnings quality is an important aspect of evaluating an entity's financial health. Earnings quality refers to stability, persistence, relevance, reliability, comparability, consistency, and lack of variability in reported earnings (Marpaung, 2019). Quality profits can be seen from the presentation of profits that correspond to reality and detail the company's interaction value so that it can provide good information, correct, and transparent so that investors can assess whether the company is worthy of investment (Azizah & Asrori, 2022).

Previous research on earnings quality obtained mixed results, based on previous research, this study used 3 independent variables that were able to influence earnings quality, including leverage, liquidity, and company size (Praduana et al, 2024). These three variables have often been used by previous researchers and the results obtained are still inconsistent.

The first element that has great potential to influence earnings quality is leverage. Leverage describes the extent to which company assets are financed with debt. The higher the debt a company has but is not used to generate profits, the worse the quality of its profits. High debt makes the company's financial reports look unattractive, so managers can commit fraud to make the financial reports look attractive to interested parties (Azizah & Asrori, 2022).

Research conducted by Nisa' Salsabillah & Aufa (2023), Lestari & Khafid (2021), and Marpaung (2019) states that leverage has a significant effect on earnings quality. Meanwhile, in other research conducted by Tsabit & Wahjudi (2022), Azizah & Asrori (2022), Masruroh & Apollo (2023), and Sejati et al., (2021) stated that leverage has no significant effect on leverage, this is because When a company has high leverage, the company will be more dynamic. This means that management will be more motivated to improve its performance so that the company can pay its debts and the positive impact is that the company will develop further. So there is no effect of leverage on earnings quality.

Apart from leverage, liquidity also has the potential to affect the quality of a company's profits. Liquidity shows a company's ability to fulfill its short-term obligations smoothly and on time (Agustina, 2020). The liquidity of a company also describes how the company's cash flow turns into using cash to meet the company's debts. A company that can fulfill its short-term debt before it matures shows that the company has good financial management (Charisma & Suryandari, 2021).

Apart from the factors above, company size is also a factor that can influence earnings quality. Company size is used to determine the scale or classification of a company. Existing companies are divided into three scales, namely small companies, medium companies, and large companies (Charisma & Suryandari, 2021).

Research conducted by Marpaung (2019) and Sejati et al. (2021) shows that company size has a significant effect on earnings quality. Meanwhile, the results of research conducted by Charisma & Suryandari (2021), Nisa' Salsabillah & Aufa (2023), and Azizah & Asrori (2022) show that company size does not have a significant effect on earnings quality because large companies have large business risks and large operational costs. The large size of the company also does not always have high profits and quality and vice versa. This can be caused by management actions that are unable to manage finances according to expectations (Azizah & Asrori, 2022). A company with a large size does not guarantee that its profits will also be high. This could be because the company is large. After all, its debt composition is greater. So, this reflects a large risk of low-quality company profits (Nisa' Salsabillah & Aufa, 2023).

REVIEW OF LITERATURE

Quality of Earnings

Profits are needed by companies to be able to continue to survive in the economy and continue the life of the company. Profit is the income obtained if the financial amount (money) of net assets at the end of the period (excluding distributions and contributions from company owners) exceeds the net assets at the beginning of the period. Earnings quality is the quality of earnings information available to the public which can show the extent to which earnings can influence decision-making and can be used by investors to assess the company. Profit quality is higher if it approaches the initial plan or exceeds the target of the initial plan. Earnings quality is low if the presentation of earnings is not in accordance with actual earnings so that the information obtained from the earnings report becomes distorted and the impact is to mislead creditors and investors in making decisions (Ariska, 2020).

Leverage

The funding system in companies usually often has conflicts between the principal and the agent. There is a possibility that the principal does not approve of additional fund activities. Thus, the agent needs an effort to cover the entire funding system for company activities by borrowing funds from external parties. Leverage is a ratio to assess how far a company uses debt to meet the company's operational and investment needs when compared to the use of its capital and measures the company's long-term capability in fulfilling its obligations (Wijaya & Saebani, 2019).

Liquidity

Liquidity is a ratio used to describe a company's ability to meet its short-term obligations which are due soon. The high liquidity of a company illustrates the company's good financial performance. Good financial performance can reduce managers' intentions to act fraudulently in presenting financial reports. In this way, the profits presented in the financial statements are of high quality. The quality of the profits generated will be better if the company can pay its debts (Maulita & Dewi, 2023). Companies that have good liquidity will be considered to have good performance by investors, this will attract investors' interest in investing their capital in the company. Liquid companies will be trusted by investors because they are considered to be performing well (Yudha et al., 2022).

Company Size

Company size is a scale for classifying the size of a company in terms of total assets, total sales, average total sales, and average total assets. The greater the assets owned, the easier it is for the company to carry out innovations for the company's development (Maulita & Dewi, 2023). Managers certainly want to get high rewards in the form of bonuses judged by the size of the company's profits, so a manager will try to provide the highest possible net income report to get a high bonus. One way is to choose and determine accounting policies that can increase profits in the financial statements for that period to give a good impression in the eyes of investors and the public. The larger the company size, the higher the company's business continuity will be in improving financial performance (Anggraeni & Widati, 2022).

Profitability

Profitability is the level of an entity's ability to receive profits in a certain period through the assets and capital owned (Munawaroh et al, 2023). The level of profitability can be a reference in making investment decisions. The company's ability to generate significant profits indicates that its level of profitability is high (Maulita & Dewi, 2023). High profitability indicates that the company has good performance so it will have an impact on how high the quality of profits is generated. The higher the company's profitability, the stronger the profit quality will be (Pasaribu & Sitorus, 2022).

Conceptual Framework

This research examines the influence of leverage, liquidity, and company size on earnings quality with profitability as a moderating variable in sector companies on the Indonesia Stock Exchange (BEI) in 2019-2022. The conceptual framework describes the relationship of the variables used in the research. In this research, the independent variables are leverage (X1), liquidity (X2), and company size (X3), and the dependent variable is earnings quality (Y) with the moderating variable namely profitability. Based on the relationship between these variables, can be described in the conceptual framework below.

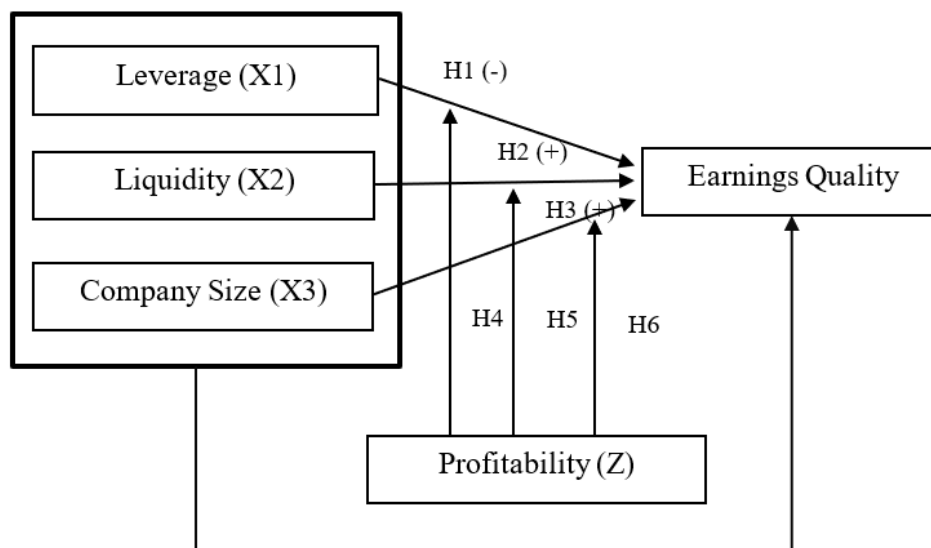


Figure 1.
Conceptual Framework
Source: Data processed by researchers, 2023

RESEARCH METHOD

Research Design

This research uses hypothesis testing and a survey of Energy sector companies on the Indonesia Stock Exchange (BEI) as a research strategy. The unit of analysis used as the population subject is the Energy sector companies listed on the Indonesia Stock Exchange (BEI) in 2019-2022 by downloading the annual report and sustainability report obtained on the BEI website, namely www.idx.co.id and the respective websites of related companies. The independent variables in this research include carbon emission disclosure, green intellectual capital, and environmental performance. The dependent variable in this research is company value and the moderating variable is company size. This research uses a research time horizon, namely Pooling Data/Panel data, namely a combination of time series and cross sections.

Population and Sample Data

Population is a collection of research objects from all similar elements that can be differentiated according to certain, clear, and complete criteria. The population in this study

are energy companies listed on the IDX during the 2019-2022 period respectively. The sample is part of the population selected objectively. Gay & Diehl (1992) believes that the sample must be as large as possible so that it is more representative (can represent the characteristics of the population) and that the information produced is relatively the same as the information contained in the population. The sample selection in this study used a purposive sampling method where samples were selected based on very subjective considerations and eliminated samples outside the criteria (Supranto, 2007). The criteria for sampling for this research were determined as follows:

1. Energy sector companies listed on the IDX during 2019-2022 consecutively.
2. Companies that publish complete financial reports during the specified period.
3. Energy sector companies that do not show losses in financial reports during 2019-2022.

RESULTS AND DISCUSSION

Data Analysis

This research uses quantitative methods as a research strategy. The analytical tools used in this research are classical assumption testing, hypothesis testing, and multiple linear regression model testing.

Data Validity Test

Normality test

The normality test is carried out to determine whether a regression model is normally distributed or not. A good regression model has a normal data distribution. Statistical tests become invalid for small sample sizes if they do not meet normality criteria (Ghozali, 2018b). This research uses non-parametric Kolmogorov-Smirnov by looking at the Asymp value. Sig. (2-tailed). Data is normally distributed if the significance value is > 0.05 or 5%. The results of the normality test are shown in Table 1.

Table 1.
Normality Test Results

Normality	N	Sig	Decision
One-Sample Kolmogorov-Smirnov Test	100	0.158	Normally Distributed

Source: Data Processed by SPSS 25, 2024

The normality test results show the Monte Carlo Asymp numbers. Sig. (2-tailed) is 0.158. This figure meets the decision-making criteria, namely $0.200 > 0.05$, so it can be concluded that the data is normally distributed.

Classic assumption test

Multicollinearity Test

The multicollinearity test is carried out to ascertain whether the regression model used contains intercorrelation between independent variables or not. The regression model is considered biased if there are symptoms of multicollinearity. The way to detect symptoms of multicollinearity is by analyzing the correlation matrix of the independent variables. If there is a high correlation between the independent variables (generally above 0.90), it means that there are symptoms of multicollinearity. Apart from that, the presence of symptoms of multicollinearity can be seen from (1) the tolerance value and its opposite (2) the variance inflation factor (VIF). These two measures show each independent variable which is explained by other independent variables. Table 2. is the result of the multicollinearity test in this study.

Table 2.
Multicollinearity Test Results

Variable	Collinearity Statistics		Decision
	Tolerance	VIF	
Leverage	0.803	1,245	There is no multicollinearity
Liquidity	0.900	1,111	There is no multicollinearity
Company Size	0.876	1,142	There is no multicollinearity
Profitability	0.781	1,280	There is no multicollinearity

Dependent Variable: Earnings Quality

Source: Data Processed by SPSS 25, 2024

The hypothesis in the multicollinearity test is:

H0: There is no multicollinearity if $VIF < 10$

H1: There is multicollinearity if $VIF > 10$

The table above shows that all variables have a VIF value < 10 so it can be concluded that multicollinearity does not occur (H0 is accepted). Apart from that, the tolerance value also shows a value greater than 0.10, so it can be concluded that there is no correlation between the independents.

Autocorrelation Test

The autocorrelation test is useful for finding out whether, in a research model, there is a correlation between data and previous observation data. A good regression is one in which there are no symptoms of autocorrelation. In this research, the method used was the Durbin-Watson test (DW test) shown in Table 3.

Table 3.
Autocorrelation Test Results

K	N	D.L	Durbin-Watson	DU	Decision
100	4	1.5922	1,920	1.7582	There is no autocorrelation

Source: Data Processed by SPSS 25, 2024

Based on the results of the multicollinearity test, it is known that the resulting Durbin-Watson value is 1.920. These results were then compared with the table values using a significance value of 0.05, a sample size of 100 ($n=100$), and several independent variables of 4 ($k=4$). Based on the Durbin-Watson table, the dL (lower limit) figure is 1.5922, and the dU (upper limit) is 1.7582. Because $1.7582 < 1.920 < (4 - 1.7582)$ or $dU < DW < (4 - dU)$, it can be said that there is no positive or negative autocorrelation, which means there are no symptoms of autocorrelation in the regression model of this research.

Heteroscedasticity Test

The heteroscedasticity test is carried out to determine whether a research model contains unequal variances from the residuals of one observation to another. A good regression model is one where heteroscedasticity does not occur. To detect whether there are symptoms of heteroscedasticity, researchers use the Glejser Test based on decision-making,

namely if the significance number is > 0.05 , it can be concluded that there is no heteroscedasticity problem. The results of the heteroscedasticity test can be seen in Table 4.

Table 4.
Heteroscedasticity Test Results

Variable	Sig value.	Conclusion
Leverage	0.371	There is no heteroscedasticity
Liquidity	0.276	There is no heteroscedasticity
Company Size	0.063	There is no heteroscedasticity
Profitability	0.129	There is no heteroscedasticity

Source: Data Processed by SPSS 25, 2024

Based on Table 4, it can be seen that the significance figure for each independent variable obtained is above 0.05, this condition meets the decision-making criteria for the Glejser method (sig. > 0.05) so it can be concluded that the regression model in this study does not experience heteroscedasticity problems, thus the regression is suitable for use for the next test.

Multiple Regression Analysis

Multiple linear regression analysis aims to determine the influence of two or more independent variables on a dependent variable and the magnitude of the value of the dependent variable if the independent variable as a predictor factor is manipulated (increasing and decreasing its value). The results of the multiple linear regression test can be seen in Table 5.

Table 5.
Moderated Regression Analysis Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	40,389	6,562		6,155	,000
	Leverage	1,471	1,719	,092	,855	,395
	Liquidity	-.220	,190	-.130	-1,159	,249
	Company Size	-1,295	,224	-.633	-5,787	,000
	Profitability	-142,624	50,713	-6,912	-2,812	,006

Leverage with Profitability (Moderation 1)	9,683	13,517	,180	,716	,476
Liquidity with Profitability (Moderation 2)	1,919	1,356	,322	1,415	.016
Company Size with Profitability (Moderation 3)	4,432	1,632	6,516	2,715	,008
a. Dependent Variable: Earnings Quality					

Source: Data Processed by SPSS 25, 2024

Based on Table 5, the 1st multiple linear regression equation in this research can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + |\beta_4 X_1 * Z| + |\beta_5 X_2 * Z| + |\beta_6 X_3 * Z| + e$$

$$Y = 40.389 + 1.1471DAR - 0.220CR - 1.295SIZE + 9.683M1 + 1.919M2 + 4.432M3$$

Information:

- Y = Quality of Earnings
- α = Constant value
- $\beta_1 DAR$ = Leverage Regression Coefficient
- $\beta_2 CR$ = Liquidity Regression Coefficient
- $\beta_3 SIZE$ = Company Size Regression Coefficient
- $\beta_4 X_1 * Z$ = Regression Coefficient Leverage with Profitability
- $\beta_5 X_2 * Z$ = Regression Coefficient of Liquidity and Profitability
- $\beta_6 X_3 * Z$ = Regression Coefficient of Company Size and Profitability

The results of the equation above can be explained as follows:

- a. The constant value (β_0) of 40,389 indicates that if the independent variables (Leverage, Liquidity, Company Size, Leverage with Profitability, Liquidity with Profitability, and Company Size with Profitability) are considered constant, then Earnings Quality as proxied by QE will increase by 40,389%.
- b. The regression coefficient for the Leverage variable ($\beta_1 X_1$) is 1,719, which means that every time Leverage increases by 1%, the Earnings Quality figure will increase by 1,719%.

- c. The Liquidity regression coefficient (β_{2X2}) is 0.190, which means that every time there is an increase in Liquidity by 1%, it will increase the Earnings Quality value as proxied by the QE figure by 0.190%.
- d. The regression coefficient value on the Company Size variable (β_{3X3}) is -0.224, indicating that with every 1% increase in Company Size, the proxied Profit Quality will decrease by 0.224%.
- e. The regression coefficient value for the Leverage and Profitability variable (β_{4X1*Z}) is 13,517, indicating that every 1% increase in Moderation 1 will reduce the proxied Profit Quality by 13,517%.
- f. The regression coefficient value on the Liquidity and Profitability variable (β_{5X2*Z}) is 1.356, indicating that every 1% increase in Moderation 2 will increase the proxied Profit Quality by 1.356%.
- g. The regression coefficient value on the Company Size and Profitability variable (β_{6X3*Z}) is 1.632, indicating that every 1% increase in Moderation 3 will increase the proxied Profit Quality by 1.632%.

Table 6.
Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,999a	,998	,998	.0058411
a. Predictors: (Constant), Company Size with Profitability, Liquidity with Profitability, Leverage with Profitability				

Source: Data Processed by SPSS 25, 2024

Based on Table 6, it is known that the R Square value is 0.998, which means that the contribution of the Leverage, Liquidity, and Company Size variables to Profit Quality strengthens by 99.8% after being moderated by the Profitability variable.

Hypothesis Testing

Coefficient of Determination Test (R²)

The coefficient of determination test (R²) functions to measure the extent of the model's ability to explain the dependent variable. The coefficient value is between zero and

one. If the R2 number is getting closer to one, it means that the independent variable used provides almost all the information needed to predict the independent variable. The results of the coefficient of determination test are in Table 7.

Table 7.
Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.502	0.252	0.221	2.4992116	1,920

Source: Data Processed by SPSS 25, 2024

Based on Table 4.8, the adjusted R2 figure is 0.221 which indicates that 22.1% of the variation in Earnings Quality can be explained by variations in the four independent variables, namely Leverage, Liquidity, Company Size, and Profitability while the remainder (100% - 22.1% = 77.9%) is explained by variables others are outside this research model.

Overall Significance Test Results from Sample Regression (F Statistical Test)

The F statistical test is a model suitability test that functions to determine whether the research model used is appropriate and to see the influence of the independent variables together on the dependent variable. The proof is carried out by comparing the Fcount numbers with Ftable and their significance values. Table 8 shows the results of the model suitability test (F test)

Table 8.
Simultaneous Results (F-Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	200,333	4	50,083	8,018	,000b
	Residual	593,376	95	6,246		
	Total	793,709	99			

Source: Data Processed by SPSS 25, 2024

The results in Table 8 show an Fcount value of 8.018. This value is then compared with Ftable. It is known that Ftable is 2.47 (df1(k-1) = 4; df2(nk) = 95; where "n" is the number of samples and "k" is the number of variables), then 8.018 > 2.47 or Fcount > Ftable. Based on the model suitability test decision (F test) above, it can be concluded that this research model is suitable for use.

Statistical T Test

The t-statistical test shows how far the influence of an independent variable individually (by itself) is in explaining variations in the dependent variable (Ghozali, 2018b). The decision made in this test is that H0 is rejected and HA is accepted if $t_{count} > t_{table}$ and the value is sig. obtained is less than 0.05. The T-test results can be seen in Table 9.

Table 9.
Partial Test Results (T-Test)

Variable	Direction Prediction	Coefficients B	Q	Sig.	Conclusion
(Constant)		40,389	6,155	0.025	
Leverage	(-)	1,471	,855	0.001	HA1 Rejected
Liquidity	(+)	-.220	-1,159	0.028	HA2 Rejected
Company Size	(-)	-1,295	-5,787	0.007	HA3 Accepted
Leverage with Profitability (Moderation 1)	(+)	9,683	,716	,476	HA4 Rejected
Liquidity with Profitability (Moderation 2)	(+)	1,919	1,415	.016	HA5 Accepted
Company Size with Profitability (Moderation 3)	(+)	4,432	2,715	,008	HA6 Accepted

Source: Data Processed by SPSS 25, 2024

Based on Table 9, the t_{count} value and significance number (sig.) for each variable are known. Next, the t_{count} value will be compared with the t_{table} value. It is known that the t_{table} value in this model is 1.98609 ($\alpha = 0.05$; $df(nk) = 92$, where "n" is the number of samples and "k" is the number of variables). Thus it can be explained as follows:

- a. The Leverage variable has a t_{count} value of 0.855 which shows that $t_{count} < t_{table}$ ($0.855 < 1.98609$) with a significance level obtained of 0.395 ($0.395 > 0.05$). So it can be concluded that the Leverage variable does not affect Earnings Quality (H0 is accepted and HA1 is rejected).
- b. The t_{count} value for the Liquidity variable is -1.159, this shows that $t_{count} < t_{table}$ ($1.159 < 1.98609$) with a significance level of 0.249 ($0.249 > 0.05$). So it can be concluded that the Liquidity variable does not affect Earnings Quality (H0 is accepted and HA2 is rejected).

- c. The Company Size variable obtained a tcount value of -5.787 which shows that tcount < ttable ($5.787 > 1.98609$) with a sig value. of 0.000, so it can be concluded that Company Size has an effect on Earnings Quality with a negative correlation direction (H0 is rejected and HA3 is accepted).
- d. It is known that the significance value of the interaction variable between Leverage and Profitability is 0.476 (> 0.05), so it can be concluded that the Profitability variable is unable to moderate the influence of Leverage on Profit Quality (H0 is accepted and HA4 is rejected).
- e. The significance value of the interaction variable between liquidity and profitability is 0.016 (> 0.05), which indicates that profitability is unable to moderate the influence of liquidity on earnings quality (H0 is rejected and HA5 is accepted).
- f. The interaction variable between company size and profitability obtained a significance value of 0.008 (< 0.05), so it can be interpreted that profitability can moderate the effect of company size on profit quality (H0 is rejected and HA6 is accepted).

CONCLUSION

This research aims to examine the influence of Leverage, Liquidity, and Company Size on Profit Quality with Profitability as a moderating variable in energy companies listed on the Indonesia Stock Exchange (BEI) in 2019-2022. Based on the results of data analysis and discussion, the following conclusions are obtained:

1. The Leverage variable proxied by DAR does not have a significant influence on Earnings Quality which is proxied by QE. This means that the size of the leverage does not affect the quality of the company's profits (HA1 is rejected).
2. The liquidity variable proxied by the current ratio does not affect earnings quality (HA2 is rejected).
3. The Company Size variable has a significant effect on the Earnings Quality variable with a negative correlation. These results indicate that the greater the company's total assets, the lower the quality of profits because assets that are too high indicate that the company is not maximizing its assets to generate more profits (HA3 is accepted).

4. The Profitability variable is not able to moderate Leverage on earnings quality (HA4 is rejected) because large companies have greater access to external sources of funding, so company funding is greater from debt than capital.
5. The profitability variable can strengthen the influence of liquidity on earnings quality (HA5 is accepted) so that with profitability, the influence of liquidity on earnings quality will increase.
6. The Profitability variable can strengthen the relationship between the Company Size variable and Profit Quality (HA6 accepted), this is because large companies tend to have high profitability because they have large resources for their operational activities.

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