

PROFITABILITY, LEVERAGE, COMPANY SIZE, AND NET WORKING CAPITAL'S IMPACT ON EARNINGS QUALITY

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ABSTRACT

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Background : Food and beverage companies are included in the group of manufacturing companies in the consumer goods industry sector. a food and beverage company is a company engaged in the food and beverage industry. This study aims to understand the direction of Profitability, Leverage, Company Size and Net Working Capital on Earning Quality in food and beverage companies listed on the Indonesia Stock Exchange in 2017 - 2020. This researcher uses a population of 16 food and beverage companies listed on the Stock Exchange. Indonesia Stock Year 2017 - 2020. **Method :** The method used in this study is a quantitative method. The data used is secondary data obtained from the official website www.idx.co.id. The research sample was taken using the purposive sampling method. The data investigation method used is the multiple linear regression method. **Result :** The results showed that partially the effect of profitability, leverage, and net working capital had a positive but not significant effect on earnings quality. And Company Size has a positive and significant effect on Earnings Quality in food and beverage companies listed on the IDX in 2017 - 2020. **Conclusion :** Based on simultaneously Profitability, Leverage, Company Size and Net Working Capital have a positive and significant impact on Earning Quality in food and beverage companies that listed on the IDX in 2017-2020.

Key words : Profitability, Leverage, Firm Size, Net Working Capital

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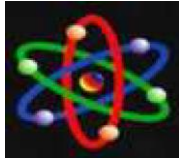
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INTRODUCTION

Food and beverage companies are included in the group of manufacturing companies in the consumer goods industry sector. A food and beverage company is a company engaged in the food and beverage industry. The main goal of a company is to obtain maximum profit. The financial performance of a company can be seen by comparing the level of profit in a certain year with the previous or subsequent years. The amount of profit achieved by the company becomes an achievement value for the company. The company's success in earning profits indicates a healthy company's financial performance, on the contrary, losses indicate a decrease in company performance. The level of profitability is used as the basis for measuring the company's financial performance. Profitability itself is the company's ability to generate profits from activities carried out in one period. The healthier the company's financial performance indicates a good level of company profitability. In generating maximum profit the company needs to consider several things about the company so that the company can develop well. How will the company be able to generate profits, what is the company doing to get the maximum profit.

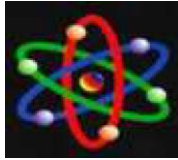
Leverage is a financial ratio that describes the relationship between the company's debt and the company's capital and assets. The leverage ratio describes the source of operating funds used by the company. A high level of leverage means that the company uses high debt and this means that the company will bear a larger interest

expense which will result in a smaller level of achieving company goals and vice versa the smaller the leverage used, the smaller the leverage. the interest expense that will be borne by the company and the greater the achievement of company goals. Ira Yunita Sari (2016) explains that companies that have a high level of leverage can result in financial difficulties to be able to settle their debt obligations.

Company size is the size of a company in terms of total assets owned. The size of the company also affects the company's profit. The bigger the company, the bigger the profit, and vice versa. The size of the company is considered to be able to affect the value of a company, because the larger the size of the company or the scale of the company, the easier it will be for companies to obtain sources of funding, both internal and external (Khumairoh et al, 2016). Companies that have large total assets will get more attention from investors, creditors and other users of financial information.

Net Working Capital is the difference between the company's current assets and current liabilities. Working capital can also be interpreted as money available for finance the company's operational activities. As the funds used for the operations of the workingcapital company, of course it is very important. Working capital can be an indication to determine the financial health of the company. The higher the working capital owned by the company, the better the condition of the company, but high working capital does not always have a good impact on the





company. If assets do not move more than cash or bank account balances, then this can cause problems for the company. Some problems that may occur are funds coming in from consumers too slowly or paying debts too quickly. Companies that are able to generate sustainable profits are companies that are able to utilize their working capital effectively and efficiently.

METHOD

The place of this research was carried out on food and beverage companies listed on the Indonesia stock exchange. The data in this research is secondary data from annual financial report data for the 2017-2020 period which is sourced from the official website of the Indonesian stock exchange www.idx.co.id. The type of research used is quantitative research. In quantitative research, research departs from theory to data, and ends in acceptance or rejection of the theory used.

The analysis in this study uses multiple linear regression analysis. The multiple linear regression model used by the researcher is formulated as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e(5\%)$$

The types of variables used in this study are the dependent variable and the independent variable. The dependent variable is the dependent variable which is influenced by other variables. The dependent variable in this study is earnings quality. While the independent variable is the independent variable that

causes changes in the dependent variable. The independent variables in this study are profitability, leverage, firm size and working capital.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

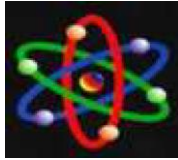
Descriptive statistical analysis is a description or description of a data that is displayed with a maximum, minimum variance, the average value (mean) and standard deviation of the profitability, leverage, company size, net working capital and earnings quality variables.

	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	55	-.07	.14	.0304	.04318
Leverage	55	-18.19	42.46	13.2708	12.23734
Ukuran Perusahaan	55	4.18	13.52	10.3795	1.33298
Net Working Capital	55	4.63	13.20	9.7705	1.61998
Laba	55	5.55	13.41	10.3563	1.14411
Valid N (listwise)	55				

Figure 1. Descriptive Statistic

From the data above, it can be seen that the minimum profitability value is -0.07, the maximum value is 0.14, the average value (mean) is 0.0304 and the standard deviation is 0.04318. The minimum value for leverage is -18.19, the maximum value is 42.46, the average value is 13.2708 and the standard deviation is 12.23734. For company size, the minimum value is 4.18, the maximum value is 13.52, the mean value is 10.3795 and the standard deviation is 1.33298. Furthermore, for Net working capital the minimum value is 4.63, the maximum is 13.20, the average is 9.7705 and the standard deviation is 1.61998. And lastly, for the quality of earnings, the minimum value is 5.55, the maximum value is 13.41, the





average is 10.3563 and the standard deviation is 1.14411.

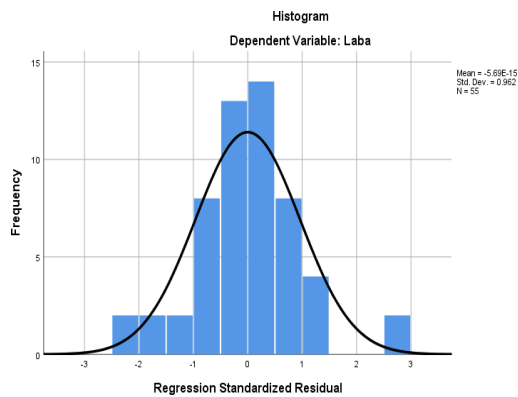


Figure 2. Histogram

It can be seen from the graphic above that the data is normally distributed because the curve is already in the shape of a bell, tilted to the right and left and finally the data can be concluded to be normally distributed.

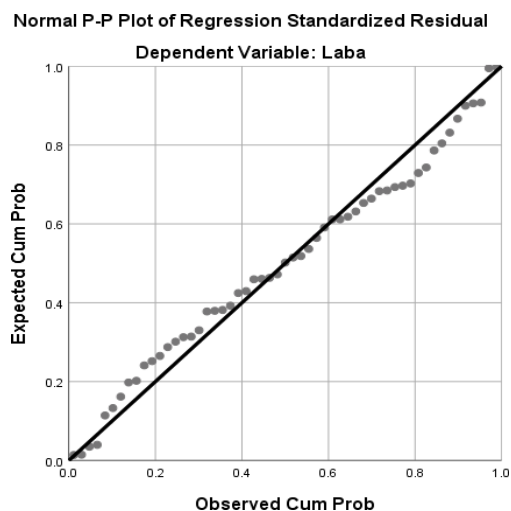


Figure 3. Normal P-Plot

It is known from the picture above that Figure 3.3 shows that the points lead to and approach the diagonal line, and it can be concluded that the assumption of normality has been reached and the data is normally distributed.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		55
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.36359010
Most Differences	Extreme Absolute	.090
	Positive	.090
	Negative	-.069
Test Statistic		.090
Asymp. Sig. (2-tailed)		.200 ^{c,d}

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

Figure 4. K-S . Normality Test

For decision making can use the Kolmogorof Smirnov method, that is, if the significant value is > 0.05 then it can be said to be normally distributed. From Figure 3.4 the results of the K-S Normality Test can be seen that the Asymp value. Sig (2-tailed) is 0.200 or greater than 0.05 then this data can be concluded to be normally distributed, then the assumption of normality is fulfilled.

Coefficients^a

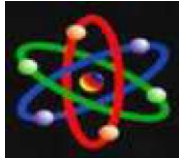
		Collinearity Statistics	
Model		Tolerance	VIF
1	Profitabilitas	.647	1.545
	Leverage	.571	1.751
	Ukuran Perusahaan	.353	2.834
	Net Working Capital	.327	3.055

a. Dependent Variable: Laba

Figure 5. Multicollinearity Test

This multicollinearity test aims to test whether the regression method has a correlation between the independent variables. With the provisions of tolerance > 0.100 and VIF value < 10.00





From the table above, it can be seen that the tolerance value for profitability is 0.647, the VIF value is 1.545, for leverage the tolerance value is 0.571 and the VIF is that is 1.751, for company size the tolerance value is 0.353 and for the VIF it is 2.834 and for Net working capital the tolerance value is 0.327 and the VIF is 3.055. From the data, it can be seen that the tolerance value is greater than 0.100 and the VIF value is less than 10.00, so it can be concluded that this data is normally distributed and there is no multicollinearity.

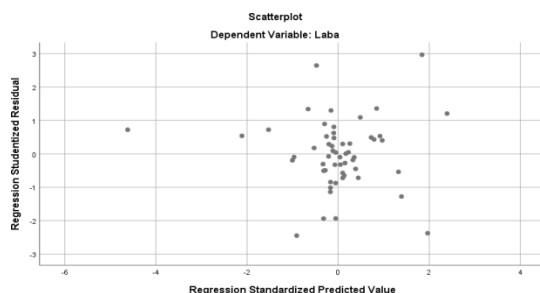


Figure 5. Scatterplot

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another observation, and can use a scatterplot graph.

From the results of the image above in Figure 3.6, it can be seen that the acquisition of the graph shows that the data is scattered and not too close together. So it can be said that this data has no symptoms of heteroscedasticity.

Model Summary^b

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.948 ^a	.899	.891	.37785	1.744	

a. Predictors: (Constant), Net Working Capital, Leverage, Profitabilitas, Ukuran Perusahaan

b. Dependent Variable: Laba

Figure 6. Autocorrelation Test

The statistical magnitude of the Durbin-Watson's test of one or more of the three dedications results in an autocorrelation. From the table in Figure 3.7, it can be seen that the DW value is 1.744. This number can be seen to be between 1 and 3, which is 1.744 not smaller than 1 and not greater than 3 or can use the formula $DU < DW < 4-DU$ which is $1.7246 < 1.813 < 2.2754$, so there is no autocorrelation and This research is worth testing.

Multiple Linear Regression

Multiple Linear Regression Analysis is an analysis that uses or involves more than one independent variable or predicate and the aim is to see whether there is a relationship between the variables used in this study. And the method used is multiple linear regression. Where this regression aims to ensure whether or not the impact of the independent variable (x) on the dependent variable (y) arises.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.935	.411		4.707	.000
	Profitabilitas	.595	1.480	.022	.402	.690
	Leverage	.000	.006	-.001	-.024	.981
	Ukuran Perusahaan	.772	.065	.899	11.886	.000
	Net Working Capital	.040	.055	.057	.725	.472

a. Dependent Variable: Laba

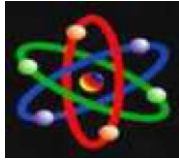
Figure 7. Multiple Linear Regression Analysis

From table above, the following multiple linear regression equation is obtained.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e(5\%)$$

$$Y = 1.935 + 0.595 (Profitabilitas) + 0.000 (Leverage) + 0.772 (Firm Size) + 0.040 (Net Working Capital) + e(5\%)$$





From the calculation of the multiple regression liner above, it can be explained as follows:

1. It is known that the magnitude of the constant is 1.935. This value can be interpreted if profitability, leverage, company size, and net working capital are equal to 1, then the value of the profit quality of manufacturing companies on the IDX in 2017-2020 has increased by 1,935.
2. If the regression coefficient of the influence of Profitability variable (X1) on earnings quality (Y) is 0.595, this value means that each increase in profitability is one unit, then the value of earnings quality increases to 0.595.
3. If the regression coefficient of the variable influence of Leverage (X2) on Earnings Quality (Y) of 0.000, which means that there is no increase in leverage, the earnings quality variable is 0.000.
4. If the regression coefficient of the influence variable of Firm Size (X3) on Earnings Quality (Y) is 0.772, which means that when Firm Size increases by one unit, the Earning Quality variable increases to 0.772
5. If the regression coefficient of the variable influence of Net Working Capital (X4) on Earnings Quality (Y) is 0.040, which means that when Net Working Capital increases by one unit, the Earning Quality variable increases to 0.040.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948 ^a	.899	.891	.37785

a. Predictors: (Constant), Net Working Capital , Leverage , Profitabilitas , Ukuran Perusahaan

b. Dependent Variable: Laba

Figure 8. Coefficient of Determination Analysis

The coefficient of determination (R) is used to measure how far the model's ability to explain variations in the dependent variable is. From the data in table 3.9 above, it can be seen that the value of the coefficient of determination (Adjusted R-Square) is 0.891 which means 89.1% of the dependent variables such as Profitability, Leverage, Company Size and Net Working Capital simultaneously or simultaneously being able to affect Earnings Quality, namely 89.1% and 10.9% explained by other variables.

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	63.547	4	15.887	111.272	.000 ^b
	Residual	7.139	50	.143		
	Total	70.686	54			

a. Dependent Variable: Laba

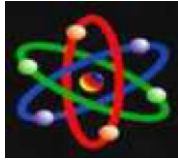
b. Predictors: (Constant), Net Working Capital , Leverage , Profitabilitas , Ukuran Perusahaan

Figure 9. F-Test

From the results of table above, it is known that the sig value of 0.000 is smaller than 0.05, so the data can be concluded that X1, X2, X3, X4 are acceptable or in other words X1, X2, X3, X4 simultaneously affect Y. And it can also using the formula to find f table=(k;n-k)=(4;55-4)=4;51)=2,553.

So for the Fcount value from the table, it can be seen that it is 111.272 which is greater than the Ftable value, which is 2.553, it can be concluded that the hypothesis is accepted or in other words X1, X2, X3, X4 simultaneously affect the dependent variable or the Y variable.





Coefficients ^a		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.935	.411		4.707	.000
	Profitabilitas	.595	1.480	.022	.402	.690
	Leverage	.000	.006	-.001	-.024	.981
	Ukuran Perusahaan	.772	.065	.899	11.886	.000
	Net Working Capital	.040	.055	.057	.725	.472

a. Dependent Variable: Laba

Figure 10. T-Test

Partial T test to show the magnitude of the influence of the independent variable individually or individually on the dependent variable, where if the significant value is < 0.05

From the results of the table above, table 3.11, the comparison results are obtained as follows:

1. The value of T arithmetic for Profitability (X1) is 0.402 and the significant number is 0.690 greater than 0.05, so it can be concluded partially or individually that profitability does not have a significant impact on Earnings Quality (Y)
2. The value of T arithmetic for Leverage (X2) is -0.024 and the significant number is 0.690 greater than 0.05, so it can be concluded partially or individually Leverage does not have a significant impact on Earnings Quality (Y)
3. The value of T arithmetic for Company Size (X3) is 11,886 and the significant number is 0.000 less than 0.05, so it can be concluded partially or individually. Company size has an impact on Earnings Quality (Y)
4. The value of T calculated for Net Working Capital (X4) is 0.725 and the significant number is 0.472 greater than 0.05, so it can be concluded partially or individually that Net Working Capital is not significant to Earnings Quality (Y)

DISCUSSION

Table = $t(\alpha/2; n-k-1) = t(0.05/2) = 0.025; 50 = 2.00856$

The Effect of Profitability on Earning Quality

From the results of testing the profitability variable has a Tcount of 0.402 with a significant level of 0.690. Thus the value of Tcount $<$ T table or $0.402 < 2.00856$ and the significance is $0.690 > 0.05$ which explains profitability partially has a positive effect on earnings quality but is not significant on earnings quality.

Effect of Leverage on Earnings Quality

From the results of testing the Leverage variable has a Tcount of 0.024 with a significant level of 0.981. Thus the value of Tcount $<$ T table or $0.024 < 2.00856$ and the significance is $0.981 > 0.05$ which explains that leverage partially has a positive effect on earnings quality but is not significant on earnings quality.

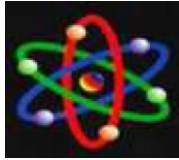
The Effect of Firm Size on Earnings Quality

From the test results, the Firm Size variable has a Tcount of 11.886 with a significant level of 0.000. Thus, the value of Tcount $<$ T table or $11.866 < 2.00856$ and the significance of $0.000 < 0.05$ which explains that company size partially has a positive effect on earnings quality and is significant on earnings quality.

Effect of Net Working Capital on Earnings Quality

From the test results, the Net Working Capital variable has a Tcount of 0.725





with a significant level of 0.472. Thus the value of $T_{count} < T_{table}$ or $0.725 > 2.00856$ and the significance is $0.472 > 0.05$ which explains that Net Working capital partially has a positive effect on earnings quality but is not significant on earnings quality.

CONCLUTION

Profitability partially has a positive effect on earnings quality but is not significant on earnings quality in food and minimum manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020. Leverage partially has a positive effect on earnings quality but is not significant on earnings quality in food and minimum manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020. Company size partially has a positive effect on earnings quality and significantly on earnings quality in food and minimum manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020. Net Working capital partially has a positive effect on earnings quality but is not significant on earnings quality in food and minimum manufacturing companies listed on the IDX in 2017-2020. Profitability, Leverage, Company Size, and Net Working Capital simultaneously have a positive and significant effect on earnings quality in food and minimum manufacturing companies listed on the IDX in 2017-2020

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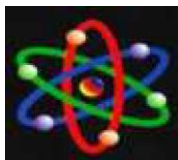
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