

The Influence of Prudence, Profit Persistence, Capital Structure, and Profit Growth on Earnings Quality of Manufacturing Companies in the Food and Beverage Sector

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Abstract: This study aims to see the effect of prudence, profit persistence, capital structure, and earnings growth on earnings quality. There were 71 food and beverage companies listed on the Indonesia Stock Exchange for 2018-2021, 42 research samples were selected consisting of 42 food and beverage companies listed on the Indonesia Stock Exchange (2018-2021). The sampling technique used in this study was purposive sampling. The dependent variable in this study is earnings quality, while the independent variables in this study are prudence, profit persistence, capital structure, and earnings growth. The data analysis technique uses multiple linear regression analysis. The test results show that prudence, profit persistence, and earnings growth have no significant effect on earnings quality, while capital structure has a significant effect on earnings quality.

Keywords: prudence, profit persistence, capital structure, earnings growth, earnings quality

1. Introduction

Financial reports are a means of communicating company financial information to internal parties (management) and external parties (creditors, debtors, investors, and soon). The financial statements that are usually presented are balance sheets, income statements, cash flow statements, and reports on owner's or shareholder's equity. In the Basic Framework for the Preparation and Presentation of Financial Statements by the Indonesian Institute of Accountants (1994) it is stated that the purpose of financial reporting is to provide useful information in making economic decisions. Financial reports are needed in order to obtain information from company sources that need information (Reyhan et al., 2014).

Profit is used by external parties as an indicator to measure the company's operational performance. Managers as internal parties of the company have more information about the condition of the company compared to external parties. This is what causes the company's management to report earnings that do not reflect the actual condition of the company (earnings management) for personal gain, for example to get a bonus. If this happens it will result in lower earnings quality. The low quality of earnings will make decision-making mistakes for users such as investors and creditors. Profits that do not show true information about management performance can mislead report users. Profits can be said to be of high quality if the reported profits can be used by users of financial reports to make the best decisions and meet the qualitative characteristics of financial reports, namely relevance and reliability (Warianto & Rusiti, 2016).

The quality of the company's earnings can be seen from the financial statements presented by the company. Investors, creditors, company owners and other interested parties need data about company profits to be used as a basis for making decisions. Quality profits can also reflect real company performance (Murniati et al., 2018). Cases related to earnings management practices have occurred at PT Ades Alfindo. The Capital Market Supervisory Agency (Bapepam) has confirmed that the management of PT Ades AlfindoPutrasetiaTbk (ADES) has provided misleading information to the public. The misinformation is related to cases of differences in production figures and sales figures in the company's financial statements. According to the Chairman of Bapepam, Herwidayatmo, the report by the new management of ADES regarding the distortion of information by the old management was not accompanied by sufficient evidence. As is well known, the new management of ADES reported that there had been differences in financial statements from 2001 to 2003. According to Etienne Benet as director of ADES, the volume differences used the assumed average selling price excluding VAT. For 2001 the difference in volume to net sales is estimated at Rp 13 billion. For 2002 it was Rp. 45 billion, for 2003 it was Rp. 55 billion and Rp. 2 billion for the middle of 2004. These estimates can be presented with maximum differences of 10 percent, 30 percent, 32 percent and 3 percent lower than sales that have been reported in 2001-2004 was declared overstated. Profit management is carried out by PT ADES including increasing income because PT ADES manipulates net sales so that PT ADES's profits increase (finance.detik.com).

The practice of inflating earnings carried out by management will cause the quality of reported earnings to be low, thus causing investor confidence in the reported financial statements to continue to decline. Inflated profits occur due to management's discretion in determining the accounting methods and policies it adopts. There are several factors that can affect the quality of earnings, namely prudence, profit persistence, capital structure and profit growth. Prudence is an act of reducing profits and net assets in the face of bad news, but does not increase profits and net assets in response to good news (Sundari & Aprilina, 2017). Profit persistence is a measure of earnings quality based on the view that profits that are more sustainable are profits that have better quality (Khafid & Mukhibad, 2016). The capital structure is the result of a funding decision, which in essence chooses to use debt or equity to fund the company's operational activities (Widayanti et al., 2014). Profit growth is an increase in profit or a decrease in profit per year which is expressed in the form of a percentage (Irawati, 2012).

2. Literature Review and Hypothesis

2.1 Agency Theory

Agency theory explains that there is an agency relationship between the principal and the agent. Agency theory was first put forward by Jansen & M (1988) which explained that the agency relationship is a contract between the principal and the agent. Agents who have individual interests tend to report profits opportunistically to fulfill their personal interests.

2.2 Earnings Quality

According to Wulansari (2013) Earnings Quality is quality profit information that is presented in general so that from this profit it can be seen how much influence profit has on the process of making choices so that it becomes the basis for investors in evaluating a company or agency. One indicator of quality earnings is the reaction of investors when the information is announced, which can be observed from the movement of stock prices (Widayanti et al., 2014).

2.3 Prudence

According to Watts (2003) conservatism (prudence) is the principle of prudence in financial reporting. This precautionary principle is that companies are not in a hurry to recognize and measure assets and profits and immediately recognize losses and debts that might occur.

The results of research conducted by Fedia et al (2019) and Antadar Nonitehe Laoli (2019) which explain that prudence has a negative effect on earnings quality. Thus the hypothesis is formulated;
H₁: prudence has a negative effect on earnings quality.

2.4 Profit Persistence

According to Delvira & Nelvirita (2013) profit persistence is a component of the predictive value of earnings in determining earnings quality and profit persistence is determined by the accruals component and cash flow from current earnings.

The results of research conducted by Petra et al (2020) and Ardianti (2018) which detect if profit persistence has a significant negative effect on earnings quality
H₂: profit persistence has a negative effect on earnings quality

2.5 Capital Structure

The capital structure is the result of a funding decision, which in essence chooses to use debt or equity to fund the company's operational activities (Widayanti et al., 2014). This ratio is useful for identifying the amount of funds provided by creditors compared to company owners.

The results of research conducted by Arisonda (2018) and Anggrainy & Priyadi (2019) report that capital structure has a positive effect on earnings quality.
H₃: capital structure has a positive effect on earnings quality.

2.6 Profit Growth

Profit growth is the change in the percentage of profits generated by the company, in this case it has increased. Good profit growth shows the company is in good condition and of course the quality of company profits will also be good (Luas et al., 2021).

The results of research conducted by Luas et al (2021) and Sadiyah, H. dan Priyadi (2015) show that profit growth affects earnings quality:
H₄: profit growth has a positive effect on earnings quality.

3. Methodology and Procedures

3.1 Population and Sample

Table 1: Research Sample Selection Process

No	Criteria	Ammount
1	Manufacturing companies engaged in the food and beverages sector during the 2017-2021 period	71
2	Manufacturing companies in the food and beverage sector that are not listed consecutively on the Indonesia Stock Exchange (IDX) for the 2017-2021 period	-21
3	Companies that do not publish financial reports on company websites or the Indonesian Stock Exchange (IDX) website during the 2017-2021 period.	-8
Total of research samples = 42x4		168
Outlier data during processing time		-14
Total research samples		154

Source: Data Process 2023

Based on the reseach sample selection process in Table 1, the population used is the financial statements of food and beverage companies that are still active in the period from 2017 to 2021. The data collection method used to obtain company data and information is the documentation method, namely collecting and studying electronic and written documents related to company financial reports that have been issued by the Indonesia Stock Exchange (IDX) and the official website of the food and beverage company. In this study, the sample is taken using purposive sampling, namely research using samples with certain criteria. Measurement of Operational Variable

This study use the following for each variables measurements:

Table 2: Measurement of Variable

Variable	Indicators	Source
Earnings Quality	$\frac{\text{Operating Cash Flow}}{\text{EBIT}}$	(Murniati et al., 2018)
Prudence	$\frac{\text{Net Profit} - \text{Operating Cash Flow} - \text{Depreciation}}{\text{Total Assets}} \times (-1)$	(Rahmawati et al., 2022)
Profit Persistence	$\frac{\text{Profit Before Tax year} - 1 - \text{Profit Before Tax year}}{\text{Total Assets}}$	(Ashma' & Rahmawati, 2019)
Capital Structure	$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$	(Luas et al., 2021)
Profit Growth	$\frac{\text{Net Income for the Year} - \text{Net Income for the Year} - 1}{\text{Net Income for the Year} - 1}$	(Arisonda, 2018)

3.2 Data Analysis Technique

In this study hypothesis testing use multiple regression analysis. The multiple linear regression method is uses to determine the correlation of each independent variable to the dependent variable.

$$\text{Earnings Quality} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

4. Result and Discussion

4.1 Deskriptive Statistical Analysis

Based on the descriptive statistical test results in Table 3, there is information about the minimum, maximum, average, and standard deviation values of each variable studied. The earnings quality has a minimum value of -6.904 and a maximum value of 7.308 The average value of earnings quality from 2018 to 2021 is 0,47311 and the standard deviation value is 1.826620. Variable Prudence has a minimum value of -0,885 and a maximum value of 3.052. Meanwhile, the mean value is 0,24278 and the standard deviation value is 0,451913. Profit Persistence has a minimum value of -0,484 and a maximum value of 0,562. Meanwhile, the average value of Profit Persistence from 2018–2021 is -,0,00030 and the standard deviation value is 0,099579. Variable Capital Strucuture has a minimum value of 0,042 and a maximum value variable Capital Structure of 6.057. The mean value of variable Capital Structure from 2018–2021 is 0,45418 with a standard deviation of 0,631805.

Profit Growth has a minimum value of -6.675 and a maximum value of Profit Growth of 7.041. While the mean value of Profit Growth from 2018 to 2021 is 0,10509 with a standard deviation of 1.445199.

Table 3: Descriptive Statistical Analysis Test Results

	N	Minimum	Maximum	Mean	Std.Deviation
EarningsQuality	154	-6.904	7.308	.47311	1.826620
Prudence	154	-.885	3.052	.24278	.451913
Profit Persistence	154	-.484	.562	-.00030	.099579
Capital Strucutre	154	.042	6.057	.45418	.631805
Profit Growth	154	-6.675	7.041	.10509	1.445199

Source: Data Process 2023

4.2 Discussion

Statistical testing with multiple linear regression requires a classic assumption test before the regression test is perform. Normality test results show that the data are normally distribute. Multicollinearity test results for the regression equation model show a value inflation factor (VIF) between 1.014-1.710 and a tolerance value between 0.585-0.987, it is describe that there is no multicollinearity problem in the regression equation. The autocorrelation test results show a Durbin-Watson (DW) value of 1.805 and indicate that there is no autocorrelation problem at the regression equation. The results of the heteroscedasticity test with the spearman's rho test show that the significance value of each research variable is above 0.05 and there is no heteroscedasticity problem in the regression equation of this study. The results of the heteroscedasticity test can be seen in the Table 4:

Table 4: Heteroscedasticity Test Resultls

Variable	Significance	Description
Prudence	0.273	No heteroscedasticity
Profit Persistence	0.476	No heteroscedasticity
Capital Structure	0.223	No heteroscedasticity
Profit Growth	0.169	No heteroscedasticity

Source: Data process, 2023

In this research, hypothesis testing is carried out using a multiple linier regression analysis model. The following is a multiple linear regression analysis table:

Table 5: Multiple Linier Regression AnalysisTest Results

Variable	B	T	Significance	Description
Prudence	-0.273	-0.722	0.472	H ₁ Rejected
Profit Persistence	-1.904	-1.412	0.160	H ₂ Rejected
Capital Strucutre	-1.232	-4.519	0.000	H ₃ Accepted
Profit Growth	0.092	1.008	0.315	H ₄ Rejected

Source: Data process, 2023

Based on the results in table 5, the results for each variable's calculation can be described as the impact of each independent variable on the dependent variable, namely that the Prudence has a significance value (sig t) of 0.472, which is greater than the significance level of 0.05 ($0.472 > 0.05$) and **H₁ is rejected**. Therefore, it can be concluded that Prudence has no impact on Earnings Quality. The results of this study differ from the results of research byRahmawati et al (2022)which explains that prudence affects on earnings quality, but are supported byFedia et al (2019) andAntadar Nonitehe Laoli (2019)which explains that prudence has no effect on earnings quality. The test results show that the average Prudence is quite high. the higher the level of prudence applied to a company, the higher the quality of the profits generated by the company. This is because the preparation of financial statements is always based on the principle of prudence.

The test results state that Profit Persistence has a significance value of 0.160, where the value is greater than 0.05 ($0.160 > 0.05$), and **H₂ is rejected**. Therefore, it can be concluded that Profit Persistence has no impact on Earnings Quality. The results of this study differ from the results of research byAminatu Rizqi et

al(2020)which explains that profit persistence affects on earnings quality, but are supported bySari (2020) andArdianti (2018)which explains that profit persistence does not affect earnings quality. With the test results showing the numbers in the Profit Persistence are quite high. Thus it can be said that if the Profit Persistence increases, the Earnings Quality will not experience a significant increase.

The test results state that Capital Structure has a significance value of 0.000, where the value is smaller than 0.05 ($0.000 < 0.05$), then **H3 is accepted**. Therefore, it can be concluded that Capital Structure has an impact on Earnings Quality. The results of this study are in line with the research fromAnggrainy & Priyadi (2019) andArisonda (2018). Leverage has a significant effect on earnings quality because the leverage level of a company is one of the things that investors consider in making investment decisions. This is because the size of the debt level of a company greatly affects the quality of the company's earnings.

The test results show that Profit Growth has a significance value of 0.315, where the value is greater than 0.05 ($0.315 > 0.05$), and **H4 is rejected**. Therefore, it can be concluded that profit growth has no impact on EarningsQuality. The results of this study differ from the results of research byLuas et al (2021) andKurniawan & Aisah (2020)which explains that profit growth affects on earnings quality, but are supported bySeptiano et al (2022) andAbidin et al (2022)which explains that profit growth has no effect on earnings quality. The results of the Profit Growth have no impact to earnings quality because this can be caused by the negative response of investors in responding to earnings quality information and also profit growth made during the research period indicating that the company's profit growth rate is low.

5. Conclusion

Based on the results of data analysis and discussion of The Influence of Prudence, Profit Persistence, Capital Structure, and Profit Growth on Earnings Quality of Manufacturing Companies in the Food and Beverage Sector listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2021, it can be concluded that only Capital Structure impact to EarningsQuality, meanwhile Prudence, Profit Persistence, and Profit Growth have no impact on Earnings Quality.

Further research is recommended to obtain even better results. First, do research with different objects, second, add independent variables that have more influence on earnings quality than the variables used in this study, third, add a longer research time because this study only uses 4 periods from 2017-2021.

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