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ANALYSIS OF PROFIT GROWTH, PROFITABILITY, CAPITAL STRUCTURE, LIQUIDITY AND COMPANY SIZE OF PROFIT QUALITY

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ABSTRACT

The purpose of this study is to examine the effect of earnings growth, profitability, capital structure, liquidity and company size on earnings quality in companies of Basic and Chemical Industries Listed on the Indonesia Stock Exchange (IDX). The time period of the study is 5 years, namely the 2014-2018 period.

The population in this study includes all basic and chemical industry companies listed on the Indonesia Stock Exchange. The sampling technique uses purposive sampling technique. The type of data used is secondary data obtained from the Indonesia Stock Exchange website. The analytical method used is panel data regression analysis.

The results of the study simultaneously showed that the independent variable affected earnings quality. While partially, company size, profitability, liquidity and company size variables have no effect on earnings quality, but capital structure variables that are proxy by leverage have a positive effect on earnings quality.

KEYWORDS: Capital Structure; Earnings Quality; Liquidity; Profitability; Profit Growth.

ABSTRAK

Tujuan dari penelitian ini adalah untuk menguji pengaruh pertumbuhan laba, profitabilitas, struktur modal, likuiditas dan ukuran perusahaan terhadap kualitas laba pada perusahaan Industri Dasar dan Kimia yang Terdaftar di Bursa Efek Indonesia (BEI). Periode waktu penelitian adalah 5 tahun, yaitu periode 2014-2018.

Populasi dalam penelitian ini mencakup semua perusahaan industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia. Teknik pengambilan sampel menggunakan teknik purposive sampling. Jenis data yang digunakan adalah data sekunder yang diperoleh dari situs web Bursa Efek Indonesia. Metode analisis yang digunakan adalah analisis regresi data panel.

Hasil penelitian secara bersamaan menunjukkan bahwa variabel independen mempengaruhi kualitas laba. Sedangkan secara parsial, variabel ukuran perusahaan, profitabilitas, likuiditas dan ukuran perusahaan tidak berpengaruh terhadap kualitas laba, tetapi variabel struktur modal yang proksi oleh leverage berpengaruh positif terhadap kualitas laba.

KATA KUNCI: Kualitas Laba; Likuiditas; Pertumbuhan Laba; Rentabilitas; Struktur Modal



INTRODUCTION

13

Financial statements are records of company financial information at accounting time, which are used to describe the condition or performance of the company. The company provides various types of information to external parties, especially investors and creditors. One element in the financial statements is the Income Report. Income Statement is a report that provides information about the income (profit) achieved by the company in the accounting period. Profit is an indicator to assess the company's operational performance. Reported earnings reflect the success or failure of the company in achieving operational goals that have been set ([Siallagan, 2009](#)).

[Indrawati and Yulianti \(2010\)](#) state that one of the important information contained in financial statements is information about company profits. The profit shown in the financial statements is one of the factors considered by investors to invest in the company. Because in general investors assess if the profits generated by the company have good value.

Investors tend to prefer large companies so that investment targets are smaller than small companies because large companies are considered able to improve company performance by increasing revenue quality. The definition of earnings quality according to [Bellovary et al \(2005\)](#) is the ability of earnings to reflect the truth of a company's income and help to predict future earnings. There are several cases of companies that manipulate financial statements that have occurred in Indonesia. As in the case of PT. Kimia Farma Tbk. It has been proven to engineer financial statements by increasing profits. Net income for the year ended December 31, 2001 has been found to be a fundamental error. In the new financial statement, the profit presented is only Rp. 99.56 Billion, or lower Rp. 32.6 billion, or 24.7% of the reported initial profit. Errors appear in units that have the Raw Material Industry, namely errors in the form of excess inventory of Rp. 8.1 Billion and excessive sales of Rp. 10.7 billion ([Gusnardi, 2010](#)).

Earnings growth of a company is usually involved by the surprise profit earned in the current period. Earnings growth is possible to influence the earnings quality of the company because if the company has the opportunity to grow to the quality of its profits.

Profitability is a financial ratio that measures the ability of a company to seek profits and measure the effectiveness of management of a company. Therefore profitability can be related to the quality of earnings itself. If a company has high profitability, it indicates a good earnings quality because it describes the company has a good ability to generate profits.

Capital structure is usually measured by leverage because to find out how much the company's assets are financed by the company's debt. Companies that have high debt can have an impact on financial risk that is increasingly large that is the possibility of companies unable to pay their debts. The risk of default causes the costs to be incurred by the company to overcome this increase so that it will reduce the company's profit. Therefore, if the leverage level of a company is high, it will have a tendency to manage large earnings so that the quality of the resulting earnings is low ([Ghosh and Moon, 2010](#)).

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Liquidity is a financial ratio that measures a company's ability to meet short-term obligations with its current assets ([Jang, Sugiarto and Siangian, 2007](#)). However, if the company's liquidity is too large, the company is said to be unable to manage its current assets to the maximum extent possible so that financial performance is unfavorable and the possibility of earnings manipulation results in lower earnings quality.

Company size is one of the factors that influence earnings quality. Because the larger the company, the higher the business continuity of the company in improving financial performance so the company does not need to practice earnings manipulation. Companies that continue to grow, easily attract a positive response from investors.

In a previous study conducted by [Dira and Astika \(2014\)](#), stated that earnings growth had no significant effect on earnings quality. In contrast to the results of the study [\(Irawati, 2012\)](#), which states that earnings growth has a significant negative effect on earnings quality.

In previous research conducted by [\(Mutmainah, 2015\)](#), stated that profitability had a significant negative effect on earnings quality. Research conducted by [\(Setiawan, 2017\)](#) states that profitability has no effect on earnings quality. While different results obtained by [\(Ardianti, 2018\)](#) states that profitability has a positive effect on earnings quality.

In previous research conducted by [\(Warianto and Rusiti, 2016\)](#) states that capital structure has a significant positive effect on earnings quality [\(Irawati, 2012\)](#). states that capital structure has no effect on earnings quality.

In a previous study conducted by [Irawanti \(2012\)](#), stated that liquidity had a significant negative effect on earnings quality. [Ardianti \(2018\)](#) states that liquidity has a significant positive effect on earnings quality. While the results of research from [Sukmawati, Kusmuriyanto, & Agustina \(2017\)](#) states that liquidity has no effect on earnings quality.

In a previous study conducted by [Warianto and Rusiti \(2016\)](#), states that company size has a significant negative effect on earnings quality [\(Dira and Astika, 2014\)](#). states that company size has a significant positive effect on earnings quality. Then from the results of research [Mutamainah \(2015\)](#), states that company size has no effect on earnings quality.

Based on previous research involved the results of research on the variables used. The difference made in this study is the more recent sampling period and the object of previous research using the financial statements of manufacturing companies listed on the IDX but for this study using the financial statements of the Basic Industrial and Chemical Sector companies listed on the IDX. From this study the researchers wanted to try to take 5 variables that have different results in each of these studies..

LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Agency Theory

Agency theory explains the relationship between the two parties, namely the principal (owner) and agency (management), where the principal brings authority to the agent to make decisions on behalf of the principal [\(Jansen and Meckling, 1976\)](#). This theory assumes that a conflict of interest between the principal and agent occurs because each individual is solely motivated by his own interests. When managers have more information than external parties. The agent or manager as an internal party knows more about the condition of the company than the owner and has more opportunity to conduct disfuncional behavior, which uses the information he knows to manipulate financial reporting in an effort to maximize its prosperity.

The agency relationship between owners and managers of this company should produce a symbiotic relationship of mutualism that benefits all parties, especially if each party exercises its rights and obligations responsibly. But what happened was the opposite, namely the emergence of agency problems between agency owners and managers of the company.

This problem arises because there are parties who prioritize personal interests even though it harms other parties. Even in its development agency problems also become a problem between managers and parties who have a relationship with the company, namely potential investors, creditors, suppliers, regulators and other stockholders.

Problems that arise from the desire of managers to optimize personal well-being by knowing the owners and other stakeholders who do not have access and adequate sources of information ([Sulistyanto, 2008](#)). If this happens will result in low quality earnings, because one measure of company performance that is often used as a basis for decision making is profit generated by the company.

Profit that does not show the actual management performance information will make the report users get lost ([Dira and Astika, 2014](#)). Profits are said to be of high quality if the reported earnings can be used by users of financial statements to make the best decisions and meet the qualitative characteristics of financial statements that are relevant and reliability ([Silfi, 2016](#)).

Profit

Profit or profit is the difference from income above the costs in a certain period (period). Profit or profit is also one of the objectives of the company in carrying out its company activities. Profits obtained by the company will be used for various purposes by the owner and management. The management always plans the amount of profit every period. Determination of the target size of profit is important in order to achieve overall corporate goals. Profit is also used to increase capital in order to increase production capacity or to expand marketing to various regions ([Kasmir, 2010](#)).

Earnings quality

Earnings quality is the quality of earnings information available to the public that is able to show the extent to which earnings can influence decision making and can be used by investors to assess company performance. Quality earnings are earnings that can reflect the continuity of earnings (sustainable earnings) in the future, which is determined by the accrual and cash components, and can reflect the company's actual financial performance ([Wulansari, Mahawati, and Hartini, 2013](#)).

Earnings growth

Earnings growth is a ratio that shows the company's ability to increase net income compared to the previous year ([Wahyuni and Ayem, 2017](#)). Companies with growing profits, can strengthen the relationship between the size or size of the company with the level of profits obtained. Where companies with growing profits will have a large amount of assets so as to provide greater opportunities in profitability and will affect good earnings quality.

Profitability

Profitability is a ratio to assess the company's ability to find profits or profits in a certain period ([Kasmir, 2010](#)). The level of profitability can be used as a basis for investment decision making because it measures the ability of the company to produce the level of investment made by the company. The way to assess the profitability of a company is diverse and depends on which profits and assets or capital will be compared with each other. Profitability illustrates a company's ability to generate profits through resources. profitability is a ratio to assess the company's ability to obtain profit (profit). This ratio also

provides information about the measurement of the effectiveness level of a company's management.

Capital structure

According to [Harjito and Martono \(2010\)](#) Capital structure is a comparison or a long-term funding balance of the company that is shown by the comparison of long-term debt to equity in conducting company activities. Capital structure can be an important issue for companies because good or bad capital structure will directly affect the financial position of the company.

Capital structure is usually measured by leverage because to find out how much the company's assets are financed by the company's debt. Companies that have high debt can have an increasing impact on financial risk. The financial risk in question is the possibility that the company is unable to pay its debts. The risk of default causes the costs to be incurred by the company to overcome this increase so that it will reduce the company's profit. Therefore, if the leverage level of a company is high, it will have a tendency to manage large earnings so that the quality of the resulting earnings is low.

Liquidity

Liquidity is a ratio that illustrates the company's ability to meet short-term financial obligations (debt). Interpreting if the company is billed, it will be able to meet the payment of debt, especially debt that is past due [\(Kasmir, 2010\)](#). Liquidity is often used by companies and investors to determine the level of the company's ability to meet obligations.

Company size

Company size is a size or scale in which the size of the company can be classified. Firm size is related to earnings quality because the larger the company, the higher the business continuity of a company in improving financial performance so that the company does not need to practice earnings manipulation [\(Irawati, 2012\)](#).

Basically the size of the company is only divided into three categories, namely large companies (Large Firms), medium sized companies (medium size) and small companies (small firms).

Conceptual Framework

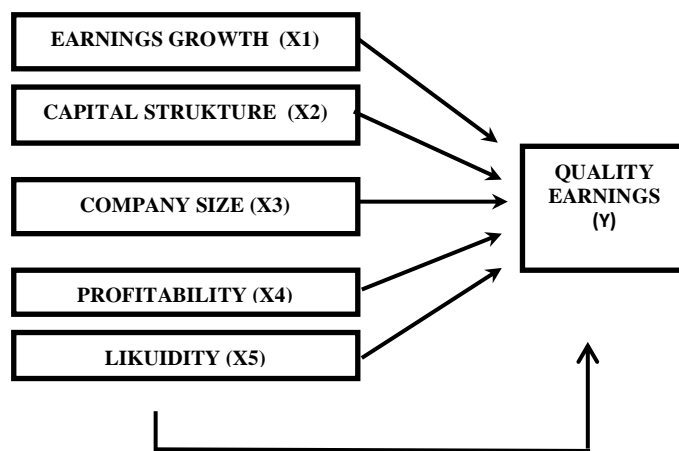


Figure 1. Conceptual Framework

Hypothesis Formulation

17

The hypothesis is a temporary answer to the formulation of research problems ([Sugiyono, 2009](#)). It is said to be temporary because new answers are based on theory. Hypotheses are formulated on the basis of a conceptual framework which is a temporary answer to the problems formulated.

Effect of Profit Growth on Profit Quality

Earnings growth is a ratio that shows the company's ability to increase net income compared to the previous year. Companies with growing profits, can strengthen the relationship between the size or size of the company with the level of profits obtained. Where companies with growing profits will have a large amount of assets so as to provide greater opportunities in profitability and will affect good earnings quality.

In research [Dira and Astika \(2014\)](#) states that earnings growth has no effect on earnings quality. Then the writer can test with a hypothesis:

H₁ : Earnings growth has no effect on earnings quality

Effect of Profitability on Profit Quality

Profitability is the company's ability to obtain profits from the investment of the company's shareholders. The higher the level of profitability of the company, the better, because it means that the level of profit and efficiency of a good company in generating profits.

Research conducted by [Iin and Subowo \(2015\)](#) states that profitability has a negative effect on earnings quality while in research [Ardianti \(2018\)](#) states that profitability has a positive effect on earnings quality. Then the researcher will test with a hypothesis:

H₂ : Profitability has a positive effect on earnings quality

Effect of Capital Structure on Earnings Quality

[Wati and Putra \(2017\)](#) states that a high level of leverage ratio can mean the company's profitability increases, but a high debt that will increase the risk of bankruptcy of the company. If most of the company's assets are financed by debt rather than own capital, the company is considered unable to maintain a financial balance in managing funds between available capital and needed capital.

This result is in line with previous research conducted by [Iin and Subowo \(2015\)](#) states that capital structure has results that affect the quality of earnings. Companies with a high degree of leverage mean that the company has funding obtained from debt. A company with a high level of debt can use its debt to fund the company's operational activities so that it is possible for the company to make a large profit and can pay off the debt from the profit generated.

Different results shown by [Dira and Astika \(2014\)](#) research show that structure has no effect on earnings quality. Based on the results of the above explanation the hypothesis can be drawn :

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3.1 H₃ : Capital Structure Has a Positive Impact on Earnings Quality

Effect of Liquidity on Earnings Quality

Liquidity is the ability of a company to meet financial obligations (debt) in the short term by using current assets owned. The level of liquidity of a company has an influence on earnings quality because if the company has the ability to pay its short-term debt, it means the company has good financial performance in fulfilling current debt so that the company does not need to manipulate earnings ([Irawati, 2012](#)).

But the level of company liquidity that is too high can also be caused by companies unable to manage their current assets optimally. The ability to manage these assets can reduce performance so that there is motivation to manipulate earnings information or perform earnings management practices to obtain earnings information contained in financial statements, which in turn makes earnings quality low.

In research [Warianto and Rusiti \(2014\)](#) and [Irawati \(2012\)](#) stated that liquidity has a negative effect on earnings quality while [Dira and Astika \(2014\)](#) and [Sukmawati, Kusmuriyanto, & Agustina \(2017\)](#) state that liquidity has no effect on earnings quality. Then the researcher will test with a hypothesis:

H₄: Liquidity has a negative effect on earnings quality

Effect of Company Size on Profit Quality

Firm size is related to earnings quality because the larger the size of a company, the higher the business continuity of a company in improving financial performance so that the company does not need to practice earnings manipulation ([Irawati, 2012](#)) company size can also affect the earnings quality of a company. Large size companies have greater and broader access to external funding.

Company size is the size of the company that can be classified based on various ways, including the size of revenue, total assets, and total equity (Brigham and Houston, 2001).

Research conducted by [Sukmawati, Kusmuriyanto, & Agustina \(2017\)](#), [Dira and Astika \(2014\)](#), and [Warianto and Rusiti, \(2016\)](#) states that company size affects earnings quality. As a third hypothesis, researchers reexamine the effect of firm size on earnings quality.

H₅: Company Size has a positive effect on Profit Quality

METHOD

Population and Sample

The sample research method used is Purposive Sampling, which is a type of sample selection based on certain considerations and taken based on the research objectives. The sample for this research is the basic industrial and chemical sub sector companies listed on the Indonesia Stock Exchange (IDX) during 2014 -2018.

Earnings Quality (Y)

The dependent variable in this study is earnings quality. Earnings Quality is the ability of earnings to reflect the existence of a company's profits and help to predict future earnings. In this study the measurement used is the [Penman \(1999\)](#) model to measure earnings quality using the following formula :

$$EQ = \frac{\text{Operating Cash Flow}}{\text{Net Income}}$$

Earning Growth (X1)

According to Nafarin (2007), income (income) is the difference between income and the balance of costs and company expenses for a certain period. By predicting earnings, the prospect of the company can be known and able to predict the individuals who will be received in the future and determine the quality of earnings in the financial statements. Earnings growth is measured by:

$$PL = \frac{\text{Laba saat ini} - \text{Laba Tahun Lalu}}{\text{Laba Tahun Lalu}}$$

Profitability (X2)

Profitability is the level of net profit that can be achieved by a company when running its operations. In this study profitability is calculated using Return of Equity (ROE), this ratio shows the level of effectiveness of company management in generating profits from funds invested by shareholders. The calculation model is as follows:

$$ROE = \frac{EAT}{Equity}$$

Capital Structure (X3)

Capital structure is the use of assets and sources of funds by companies that have fixed costs with a view to increasing the potential returns of shareholders. Capital structure measured using leverage is a variable to find out how much the company's assets are financed by the company's debt. Leverage can also be interpreted as the level of company dependence on debt in financing its operations, thus leverage also reflects the level of the company's financial risk. The leverage ratio in this study is measured by Debt To Equity Ratio (DER). The calculation model is as follows:

$$DER = \frac{\text{Total Liability}}{\text{Total Equitas}}$$

Liquidity (X4)

According to Fahlevi (2016), liquidity is the company's ability to pay company obligations. Obligations that must be met are short-term debt, therefore this ratio can be used to measure the level of short-term credit security, and measure whether the company's operations will not be disrupted if short-term obligations This is billed immediately.

3.1 Liquidity in this study was measured by Quick Ratio (QR). This ratio is to measure the ability of a company to meet its short-term obligations using assets. Included as Quick

Assets are current assets that can be quickly converted into cash. The calculation model is as follows:

$$QR = \frac{\text{Aktiva Lancar} - \text{Persediaan}}{\text{Hutang lancar}}$$

Firm Size (X5)

Firm size is used as an independent variable. In accordance with the research of Watts and Zimmerman (1986) which explains that large companies tend to avoid earnings management to avoid exports from outside companies with high assets tend to have better earnings quality. Thus, this variable is thought to have a negative sign on earnings quality.

The company size variable can be measured from the total assets owned by the company obtained from the company's annual report. Enterprise size that is measured by total assets will be informed in the logarithm to equate with other variables because the company's total assets value is relatively large compared to other variables in this study (Karina and Yuyetta, 2013).

$$\text{Size} = \text{Ln Total Aset}$$

Hipotesis Test

Descriptive Statistic Analysis

Descriptive statistical analysis is a statistic used to analyze data by describing data that has been collected as the data without intending to make conclusions that apply to the public or generalization (Sugiyono; 2014) Descriptive statistical analysis provides descriptive data from the average (mean) , standard deviations, variants, maximum, minimum (warianto and Rusiti; 2016).

Estimating Regression Model

In estimating the regression model using panel data, there are three approaches that can be used, namely ordinary least square (OLS) or Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM) (Basuki and Prawoto; 2017).

Panel Data Regression Model Selection Techniques

To determine the right panel data regression model to be used in dta panel regression analysis, we can do the following tests:

Chow Test

The chow test is used to select the model used whether it is better to use CEM or FEM. This test can be seen in the probability value (Prob) (Eksandy and Heriyanto; 2017). Cross section F and Cross Section chi-square with the following hypothesis:

H0: The model follows the Common Effect Model if the probability of cross section F and Cross Section chi-square $> \alpha$ (0.05)

Ha: The model follows the Fixed Effect Model if the probability of cross section F and Cross-Section chi-square $< \alpha$ (0.05)

Hausman Test

21

Used to select the model used whether you should use REM or FEM. This test can be seen in the random Cross Section probability with the following hypothesis:

H0: The model follows the Random Effect Model if the probability of a Cross Section is $\text{Random} > \alpha (0.05)$

Ha: The model follows the Fixed Effect Model if the Cross Section Random probability $< \alpha (0.05)$.

Lagrange Multiplier Test

Used to select the model used whether you should use REM or CEM. This test can be seen in the Pagan Breush probability value with the following hypothesis:

H0: The model follows the Common Effect Model if the probability of a Cross Section Breagan pagan $> \alpha (0.05)$

Ha: The model follows the Random Effect Model if the probability of Pagan Cross-Section Breush $< \alpha (0.05)$.

Classical Assumption Test

Is a statistical requirement that must be met in the regression analysis using the Ordinary Least Square approach, namely CEM and FEM in the estimation technique. This test needs to be done if the regression model used is in the form of CEM or FEM. This test consists of tests of linearity, autocorrelation, multicollinity and normality. However, not all tests carried out in panel data regression are only multicollinitivity and heteroskedasticity tests required.

Multikolineritas Test

Performed on a regression that uses more than one independent variable, this is to find out whether there is an interplay between the independent variables under study.

Heteroskedastisitas Test

Done to find out whether or not the variance in variance of the panel data regression model residuals. This test can be seen in the LM Pagan Breush probability value with the following hypothesis:

H0: If the LM Pagan Prob Breush value $> \alpha 0.05$

Ha: If the LM Pagan Prob Breush value $< \alpha 0.05$

F Test

The F Test results explain whether all independent variables entered into the model together have an influence on the related variables or in other words the model fit or not. If the F test has no effect then the study is not feasible to proceed. Hypothesis testing in the F test is as follows:

JAA

3.1 • Based on the comparison of F statistics with F tables

H0: If the value of F statistic is $< F$ Table

Ha: If the value is F statistic > F Table.

Which means that if H0 is accepted then the independent variable (X) together does not affect the Dependent variable (Y). But if Ha is accepted, it means that the independent variable (X) jointly influences the dependent variable (Y)

- Based on Probability

H0: If the value of prob (F-statistic) > α 0.05

Ha: If the value of prob (F-statistic) > α 0.05

If H0 is accepted, it means that the independent variable (X) together has no effect on the variable (Y). but conversely, if Ha is accepted then the variable (X) jointly influences the variable (Y).

R² Test (Koefisien Determinasi)

The results of the coefficient of determination explain how far the ability of the regression model in explaining the variation of the independent variables affect the dependent variable. R-squared value will show how much X will affect the movement of Y. the greater the R-square results will be better because it identifies the better the independent variable in explain the dependent variable (Eksandy and Heriyanto, 2017).

T test

T test results explain the significance of the effect of partially independent variables on the dependent variable. The hypothesis in the t test is as follows:

- Based on comparison of t - statistics with t table

H0: If the value of t statistic < t table

Ha: If the value of t statistic > t table.

If H0 is accepted then the meaning of variable X partially has no effect on Y. But conversely if Ha is accepted it means that variable X partially affects the variable Y.

- Based on Probability

H0: If the value of Prob > α 0.05

Ha: If the value of Prob < α 0.05

If H0 is accepted then the meaning of variable X partially has no effect on Y. But conversely if Ha is accepted it means that variable X partially affects the variable Y.

Panel Data Regression Analysis

Is a combination of cross section data from time series data, where the same cross section units are measured at different times. So in other words, panel data is data from several individuals (samples) that are observed in a certain period of time.

$$Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \varepsilon_i$$

Keterangan:

- Y_i = Earnings Quality
- α = Constanta
- $X1_i - X5_i$ = Variable -Variable X
- ϵ_i = Error

RESULTS AND DISCUSSION

	KL	PL	ROE	DER	QR	SIZE
Mean	1,41	0,33	0,14	0,82	1,84	25,29
Median	0,75	0,1	0,15	0,63	1	26,81
Max	10,5	3,82	0,34	2,39	15,9	30,02
Min	-0,18	-0,75	0,01	0	-0,25	16,85
Std. Dev	2,11	0,89	0,08	0,59	2,7	4,13
Skewness	2,89	2,23	0,46	0,7	4,24	-1,05
Kurtosis	11,57	8,86	3,67	2,73	22,45	2,77
Sum	49,32	11,44	5,01	28,6	64,29	885,21
Observation	35	35	35	35	35	35

Table 1.
Descriptive
Analysis
Results

Source : Eviews 9.0, 2019

Based on the table above it can be described that earnings quality as the dependent variable (Y) has the lowest value -0.184 and the highest 10.50 average value (mean) of 1.409 with a standard deviation of 2.113. The mean value of 1.409 states that the average earnings quality of the sample companies studied is 140.9% of the total earnings quality. The standard deviation indicates that the earnings quality of the sample companies studied has a difference of 211.3% which is said to be relatively large.

The independent variable Profit Growth (X1) has a maximum value of 3,816. And the minimum value is -0.745. the mean value is 0.326 with a standard deviation of 0.886. The mean value of 0.326 states that the average earnings quality of the sample companies studied is 326% of the total earnings quality. Standard deviations indicate that the earnings quality of the sample companies studied is relatively large.

The independent variable Profitability (X2) has a maximum value of 0.343. And the minimum value is 0.005. the mean value is 0.143 with a standard deviation of 0.076. The mean value of 0.143 states that the average earnings quality of the sample companies studied is 143% of the total earnings quality. Standard deviations indicate that the earnings quality of the sample companies studied is relatively large.

The independent variable Capital Structure (X3) has a maximum value of 2,393. And a minimum value of 0,000. the mean mean value is 0.817 with a standard deviation of 0.588. The mean value of 0.817 states that the average earnings quality of the sample companies studied is 817% of the total earnings quality. Standard deviations indicate that the earnings quality of the sample companies studied is relatively large.

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The independent variable Liquidity (X4) has a maximum value of 15,900. And the minimum value is -0.254. the mean mean value is 1,836 with a standard deviation of 2.697. The mean value of 1,836 states that the average earnings quality of the sample companies

studied is 183.6% of the total earnings quality. Standard deviations indicate that the earnings quality of the sample companies studied is relatively large.

The independent variable Company Size (X5) has a maximum value of 30,025. And the minimum value is 16.85. mean value of 25.29 with a standard deviation of 4.133. The mean value of 25.29 states that the average earnings quality of the sample companies studied is 252.9% of total earnings quality. Standard deviations indicate that the earnings quality of the sample companies studied is relatively large.

Estimation of Panel Data Regression

Common effect model

The common effect model is the simplest panel model approach because it only combines time series data and cross sections. In this model, time and individual dimensions are not considered, so it is assumed that corporate data behavior is the same over various time periods. This method can use the ordinary least Square (OLS) approach or the least squares technique to estimate the panel data model ([Basuki and Prowoto; 2017](#)). The Common Effect Model estimation form is as follows:

Common effect model

Dependent Variable: KL
 Method: Panel Least Squares
 Date: 11/11/19 Time: 15:20
 Sample: 2014 2018
 Periods included: 5
 Cross-sections included: 7
 Total panel (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.196557	2.052756	-0.095753	0.9244
PL	0.224179	0.420932	0.532577	0.5984
ROE	-7.595584	4.971771	-1.527742	0.1374
DER	1.999029	0.656692	3.044087	0.0049
QR	0.148327	0.145099	1.022247	0.3151
SIZE	0.028191	0.078815	0.357682	0.7232
R-squared	0.339861	Mean dependent var		1.409197
Adjusted R-squared	0.226044	S.D. dependent var		2.113702
S.E. of regression	1.859525	Akaike info criterion		4.233324
Sum squared resid	100.2771	Schwarz criterion		4.499955
Log likelihood	-68.08317	Hannan-Quinn criter.		4.325365
F-statistic	2.986025	Durbin-Watson stat		2.195691
Prob(F-statistic)	0.027068			

Figure 2.
Common
Effect Model

Source: Eviews 9.0, 2019

Fixed Effect Model

The Fixed Effect Model assumes that differences between individuals can be accommodated from their intercept differences. To estimate the fixed effect model panel data model uses a dummy variable technique to capture intercept differences between companies. This estimation model is often called the Least Squares Dummy Variable (LSDV) technique ([Basuki and Prowoto; 2017](#)). The Fixed Effect Model estimation form is as follows:

Dependent Variable: KL
 Method: Panel Least Squares
 Date: 11/11/19 Time: 15:59
 Sample: 2014 2018
 Periods included: 5
 Cross-sections included: 7
 Total panel (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53.27594	36.79525	1.447903	0.1611
PL	0.131513	0.442940	0.296909	0.7692
ROE	-8.935155	7.841137	-1.139523	0.2662
DER	2.584028	1.223968	2.111189	0.0458
QR	0.102583	0.176837	0.580100	0.5675
SIZE	-2.092823	1.451390	-1.441943	0.1628

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.494077	Mean dependent var	1.409197
Adjusted R-squared	0.252113	S.D. dependent var	2.113702
S.E. of regression	1.827939	Akaike info criterion	4.310115
Sum squared resid	76.85126	Schwarz criterion	4.843377
Log likelihood	-63.42702	Hannan-Quinn criter.	4.494197
F-statistic	2.041949	Durbin-Watson stat	2.500950
Prob(F-statistic)	0.071857		

Figure 3.
Fixed Effect
Model

Source: Eviews 9.0, 2019

Random Effect Model

The Fixed Effect Model estimation form is as follows:

Dependent Variable: KL
 Method: Panel EGLS (Cross-section random effects)
 Date: 11/11/19 Time: 16:11
 Sample: 2014 2018
 Periods included: 5
 Cross-sections included: 7
 Total panel (balanced) observations: 35
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.196557	2.017887	-0.097407	0.9231
PL	0.224179	0.413782	0.541779	0.5921
ROE	-7.595584	4.887319	-1.554141	0.1310
DER	1.999029	0.645538	3.096688	0.0043
QR	0.148327	0.142634	1.039912	0.3070
SIZE	0.028191	0.077476	0.363862	0.7186

Effects Specification			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			1.827939	1.0000

Weighted Statistics			
R-squared	0.339861	Mean dependent var	1.409197
Adjusted R-squared	0.226044	S.D. dependent var	2.113702
S.E. of regression	1.859525	Sum squared resid	100.2771
F-statistic	2.986025	Durbin-Watson stat	2.195691
Prob(F-statistic)	0.027068		

Unweighted Statistics			
R-squared	0.339861	Mean dependent var	1.409197
Sum squared resid	100.2771	Durbin-Watson stat	2.195691

Figure 4.
Random
Effect Model

The Random Effect Model estimates panel data where interruption variables may be interconnected between time and between individuals. In the random effect model the difference in intercepts is accommodated by the error terms of each company. The advantage of using the random effect model is eliminating heteroskedacity. This model is also called the Generalized Least square (GLS) technique. ([Basuki and Prowoto; 2017](#)).

Model Estimation Model Selection

Chow Test

The chow test is used to select the model used whether to use the Common Effect model (CEM) or Fixed effect model (FEM). This test can be seen in the value of the probability (Prob.) Cross Section F and cross Section chi square with the following hypothesis:

H0: The model follows the Common Effect Model if the probability of cross section F and chi-square cross section $> \alpha$ (0.05).

Ha: The model follows the Fixed Effect Model if the probability of cross section F and chi-square cross section $< \alpha$ (0.05).

The chow test results are as follows:

Table 2.
Chow Test Results

Redundant Fixed Effect Test Equation: EQ01 Test cross-section fixed effects			
Effect Test	Statistic	d.f.	Prob.
Cross-section F	1,16848	-6,23	0,3569
Cross-section Chi-square	9,312305	6	0,1568

Source: Eviews 9.0, 2019

The table above shows the probability value of cross section F and Chi-square cross section $> \alpha$ (0.05). It can be concluded that the Common Effect Model (CEM) is more feasible than the Fixed Effect Model (FEM).

Hausman test

The Hausman test is used to choose the model used whether it is better to use the Random Effect Model (REM) or Fixed Effect Model (FEM). This test can be seen in the value of probability (Prob.) Random cross section with the following hypothesis:

H0: The model follows the Random Effect Model if the probability of cross section F and cross section chi-square $> \alpha$ (0.05).

Ha: The model follows the Fixed Effect Model if the probability of cross section F and chi-square cross section $< \alpha$ (0.05).

The Hausman test results are as follows:

Table 3.
Hausman Test Results

Correlated Random Effects - Hausman Test Equation: EQ01 Test cross-section random effects			
Test Summary	Chi-Sq Statistic	Chi-Sq df	Prob.
Cross-section random	6,869619	5	0,2305

Source: Eviews 9.0, 2019

27

The table above shows the value of the random cross section probability of $0.2305 > \alpha$ (0.05). It can be concluded that the Random Effect Model (REM) is more feasible to use than the Fixed Effect Model (FEM).

Lagrange Multiplier Test

This test is used to choose the model used whether to use the Common Effect model (CEM) or Random effect model (REM). This test can be seen in the value of the Breush-Pagan probability with the following hypothesis:

H0: The model follows the Common Effect Model if the Breush-Pagan probability is $> \alpha$ (0.05).

Ha: The model follows the Random Effect Model if the Breush-Pagan probability $< \alpha$ (0.05).

The Lagrange Multiplier Test results are as follows:

Lagrange Multiplier Test for Random Effects			
Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one side (all others) alternatives			
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0,329491 (0,566)	1,387352 (0,2389)	1,716843 (0,1901)

Table 4.
Lagrange Multiplier Test Results

Source : Eviews 9.0, 2019

Based on the calculation above the Breusch-Pagan probability value of $0.5660 > \alpha$ (0.05) indicates that the Common Effect Model is more feasible to use than the Random Effect Model.

Model Conclusions

The test results are presented in the following table::

No	Metode	Pengujian	Hasil
1	Uji Chow	CEM vs FEM	CEM
2	Uji Hausman	FEM vs REM	REM
3	Uji Lagrange Multiplier	CEM vs REM	CEM

Table 5.
Model Conclusion Results

Based on the results of tests that have been done, it is known that the chow test of the chosen model (CEM) with a cross section F value of 0.3569 is greater than 0.05 while in the hausman test the selected model is the estimated REM model with a random cross section value of 0, 2305 is greater than 0.05. And in the Lagrange Multiplier test the selected model is CEM. So it is hereby stated that the model used is the Common Effect Model (CEM) model.

With multicollinearity test it can be seen whether there is an interplay between the independent variables under study.

Table 6.
Multicollinearity
Test Results

	KL	PL	ROE	DER	QR	SIZE
KL	1.000000	0.281060	-0.150269	0.531469	-0.132620	0.021601
PL	0.281060	1.000000	0.215447	0.474012	-0.101433	0.028781
ROE	-0.150269	0.215447	1.000000	0.013267	0.456683	0.200394
DER	0.531469	0.474012	0.013267	1.000000	-0.347671	-0.009127
QR	-0.132620	-0.101433	0.456683	-0.347671	1.000000	0.126980
SIZE	0.021601	0.028781	0.200394	-0.009127	0.126980	1.000000

Source : Eviews 9.0, 2019

From the results above it can be seen that there are no independent variables that have a value of more than 0.8 so that it can be said that there is no multicollinity in the regression model.

Heteroscedasticity Test

his test needs to be done to find out whether or not there are variance inequalities from the residual panel data regression model. The heteroscedasticity test results are as follows:

Residual Cross-Section Dependence Test
 Null hypothesis: No cross-section dependence (correlation) in residuals
 Equation: EQ01
 Periods included: 5
 Cross-sections included: 7
 Total panel observations: 35
 Note: non-zero cross-section means detected in data
 Cross-section means were removed during computation of correlations

Figure 5.
Heteroscedast
icity Test
Results

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	27.80264	21	0.1458
Pesaran scaled LM	-0.030454		0.9757
Pesaran CD	-0.821076		0.4116

Source : Eviews 9.0, 2019

Based on the calculation above the probability value of Breusch-Pagan LM > α (0.05). So it can be concluded that there is no heteroscedasticity in the regression model.

Model Feasibility Test (Test F)

R-square	0,339861	Mean dependent var	1,409197
Adjusted R-Square	0,226044	S.D. dependent var	2,113702
S.E of regression	1,859525	Akaike info criterion	4,233324
Sum squared resid	100,2771	Schwarz criterion	4,299955
Log likelihood	-68,0832	Hannan-Quinn criter	4,325365
F-Statistic	2,986025	Durbin-Watson stat	2,195691
Prob (F-statistic)	0,027068		

Table 6.
Test Results F

Source : Eviews 9.0, 2019

29

Based on the table above shows that the F-statistic value of 2.986025, while the F Table with a level of $\alpha \neq 5\%$, $df_1 (k-1) = 5$ and $df_2 (n-k) = 29$ in can be equal to 2.55. Thus the F-Statistics (2.986025) > F Table (2.55) and the Prob value (F-Statistic) 0.027068 < 0.05. So it can be concluded that H_a is accepted, which means the independent variables in this study which consist of earnings growth, capital structure, company size, profitability and liquidity together have an influence on earnings quality.

Test R2 (Determination Coefficient)

The coefficient of determination explains how far the ability of the regression model in explaining the variation of independent variables affects the dependent variable. The greater the R-squared results, the better it is because this identifies the better the independent variable in explaining the dependent variable. The following results are the coefficient of determination:

Based on the results of the R-squared in this model amounted to 0.226044 means that variations in changes in the ups and downs of Profit Quality can be explained by Profit Growth, Profitability, Capital Structure, Liquidity and Size of the company by 22.60% while the remaining 77.4% is caused by variables or anything other than the variable under study.

Partial t test

Following are the results of the t test:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.196557	2.052756	-0.095753	0.9244
PL	0.224179	0.420932	0.532577	0.5984
ROE	-7.595584	4.971771	-1.527742	0.1374
DER	1.999029	0.656692	3.044087	0.0049
QR	0.148327	0.145099	1.022247	0.3151
SIZE	0.028191	0.078815	0.357682	0.7232

Table 7.
Partial t Test

Source: Eviews 9.0, 2019

Based on the results of the t test on the panel regression analysis shows, it can be concluded the results of the hypothesis as follows:

Testing the first hypothesis (H1)

The t-statistic value of earnings growth was 0.532 while t table with a level of $\alpha = 5\%$, $df (n-k) = 35-6$ obtained t table of 2.045. Thus t-statistics (0.532) < t table (2.045) and probability value 0.5984 > α (0.05), it can be concluded that the earnings growth variable in this study has no influence on earnings quality.

Second Hypothesis Testing (H2)

The t-statistic value of Capital Structure is 3.044, while t table with $\alpha = 5\%$ level, $df (n-k) = 35-6$ obtained t table of 2.045. Thus t-statistics (3.044) > t tables (2.045) and probability values of 0.0049 < α (0.05), with a coefficient of 1.990, it can be concluded that the Capital Structure variable in this study has a positive influence on earnings quality.

Third Hypothesis Testing (H3)

The t-statistic value of Company Size is 0.357, while t table with $\alpha = 5\%$ level, $df (n-k) = 35-6$ obtained t table of 2.045. Thus the t-statistic (0.357) <t table (2.045) and the probability value $0.723 > \alpha (0.05)$, it can be concluded that the firm size variable in this study has no influence on earnings quality.

Fourth Hypothesis Testing (H4)

The t-statistic profitability value is -1,527, while t table with $\alpha = 5\%$ level, $df (n-k) = 35-6$ obtained t table of 2.045. Thus t-statistics (-1.527) <t table (2.045) and probability value $0.1374 > \alpha (0.05)$, it can be concluded that the profitability variable in this study has no influence on earnings quality.

Fifth Hypothesis Testing (H5)

Liquidity t-statistic value is 1.022, while t table with $\alpha = 5\%$ level, $df (n-k) = 35-6$ obtained t table of 2.045. Thus the t-statistic (1.022) <t table (2.045) and the probability value $0.3151 > \alpha (0.05)$, it can be concluded that the variable Liquidity in this study has no effect on earnings quality.

Panel Data Regression Equation

The function of the regression equation is to predict the value of the dependent variable (Y) and to find out the direction and magnitude of the influence of the independent variable (X) on the dependent variable (Y). The following Coefficient values are obtained:

Dependent Variable: KL
 Method: Panel Least Squares
 Date: 11/12/19 Time: 12:30
 Sample: 2014 2018
 Periods included: 5
 Cross-sections included: 7
 Total panel (balanced) observations: 35

Variable	Coefficient
C	-0.196557
PL	0.224179
ROE	-7.595584
DER	1.999029
QR	0.148327
SIZE	0.028191

Figure 6.
Coefficient
Values

The results of the regression equation obtained are:

$$Y = -0,196 + 0,224 PL + (-7,595) DER + 1,999 QR + 0,028 SIZE + e$$

The regression equation above has the following meaning:

The constant -0,916 (19.6%) states that if the independent variable is considered constant, the profit quality that occurs is -0.196 (196%). Earnings growth has a positive towards the regression coefficient of 0.022 (2.2%). This means that the greater the company's profit growth, the better the quality of earnings. The capital structure has a negative regression coefficient of -7.595 (759.5%). This means that the greater the capital structure of a company, the lower Profit Quality. Liquidity has a positive towards regression coefficient of 0.148 (14.8%). This means that the greater the liquidity of a company, the better the quality of earnings. Company size has a positive towards regression coefficient of 0.028 (280%). This means that the larger the size of the company, the better the quality of earnings compared to smaller companies.

Effect of Profit Growth on Profit Quality

It is known that earnings growth has t-statistics (0.532) < t table (2.045) and probability values $0.5984 > \alpha$ (0.05). These results indicate that earnings growth in this study has no influence on earnings quality, so the first hypothesis submitted is accepted.

Companies with growing profits, can strengthen the relationship between the size or size of the company with the level of profits obtained. Where companies with growing profits will have a large amount of assets so as to provide greater opportunities in profitability and will affect good earnings quality. However, earnings growth in this study does not affect earnings quality because a company that has the opportunity to grow its profits does not mean that it has a good corporate financial performance.

The results of this study are supported by research conducted by [Dira and Astika \(2014\)](#) stating that earnings growth has no effect on earnings quality. However, this study is not in line with research conducted by [Irawati \(2012\)](#) which states that earnings growth has a negative effect on earnings quality. bahwa Pertumbuhan laba memiliki t-statistik (0,532) < t tabel (2,045) dan nilai probabilitas $0,5984 > \alpha$ (0,05).

Effect of Capital Structure on Earnings Quality

Effect of Capital Structure on Earnings Quality

It is known that the capital structure has t-statistics (3.044) > t table (2.045) and the probability value is $0.0049 < \alpha$ (0.05), these results indicate that the capital structure in this study has a positive influence on earnings quality, then the third hypothesis submitted submitted.

Companies with a high degree of leverage mean that the company has funding obtained from debt. A company with a high level of debt can use its debt to fund the company's operational activities so that it is possible for the company to make a large profit and can pay off the debt from the profit generated.

This result is in line with previous research conducted by [Iin and Subowo \(2015\)](#) states that capital structure has results that affect the quality of earnings. Different results shown by [Dira and Astika \(2014\)](#) research show that structure has no effect on earnings

Effect of company size on earnings quality

It is known that the size of the company has a statistical t (0.357) < t table (2.045) and a probability value of $0.723 > \alpha$ (0.05). These results indicate that the size of the company in this study has no influence on earnings quality, then the third hypothesis proposed in decline.

Companies that have a large amount of total assets that are classified as large-sized companies that can easily have access to funding sources and have a good level of financial performance and cannot guarantee that the quality of the profits generated by the company will be high. This is due to the fact that large-sized companies have relatively large profit potentials and also have large business risks, because the infrastructure of a large company means that the company's operational costs are also large.

The results of this study is not in line with research conducted by [Sukmawati, Kusmuriyanto, & Agustina \(2017\)](#) which states that company size has a positive effect on earnings quality.

Effect of Profitability on Earnings Quality

It is known that profitability has a t-statistic (-1.527) < t table (2.045) and a probability value of 0.1374 > α (0.05). These results indicate that profitability in this study does not have an effect on earnings quality, hence the fourth hypothesis submitted rejected.

Profitability is a ratio used to measure a company's ability to generate profits. In this study profitability has no effect which means that a company with a low level of profitability (ROE) reflects the inability of a company to make a profit. Because profitability cannot trigger market responses to earnings information, this shows that profitability does not contribute to investors in assessing market conditions. A high level of profitability does not make a guarantee that the company has a good performance, it could be that the company has excess debt, losses in the previous year and also inconsistent profit income.

The results of this study are supported by research conducted by Suriani Ginting (2017) stating that profitability has no effect on earnings quality. However, this research is not in line with research conducted by Reza Ardianti (2018) which states that profitability has a positive effect on earnings quality.

Effect of Liquidity on Earnings Quality

It is known that Liquidity has a t-statistic (1.022) < t table (2.045) and a probability value of 0.3151 > α (0.05). These results indicate that liquidity in this study has no effect on earnings quality, hence the fifth hypothesis submitted rejected.

But the level of company liquidity that is too high can also be caused by companies unable to manage their current assets optimally. The ability to manage these assets can reduce performance so that there is motivation to manipulate earnings information or perform earnings management practices to obtain earnings information contained in financial statements, which in turn makes earnings quality low.

The results of this study are supported by research [Dira and Astika \(2014\)](#) and [Sukmawati, Kusmuriyanto, & Agustina \(2017\)](#) states that liquidity has no effect on earnings quality. In contrast to [Warianto and Rusiti \(2016\)](#) and [Irawati \(2012\)](#) research, liquidity has a negative effect on earnings quality.

CONCLUSION

Based on the results of the analysis conducted in this study aims to find out whether the independent variables of the study are Profit Growth, Capital Structure, Company Size, Profitability and Liquidity affect the Profit Quality disclosed in the annual financial statements of companies in the Basic Industry and Chemical sectors listed on the Exchange Indonesian Stock Exchange (IDX) in 2014-2018, then it can be concluded as follows:

From the t test analysis, it is obtained that the t-statistic of profit growth is 0.532 while t table with $\alpha = 5\%$ level, df (n-k) = 35-6 obtained t table of 2.045. Thus t-statistics (0.532) < t table (2.045) and probability value 0.5984 > α (0.05), it can be concluded that the earnings growth variable in this study has no influence on earnings quality. This is because a company that has the opportunity to grow its profits does not mean to have a good corporate financial performance. From the t test analysis obtained t-statistic value of Capital Structure of 3.044, while t table with $\alpha = 5\%$ level, df (n-k) = 35-6 obtained t table of 2.045. Thus t-statistics (3.044) > t tables (2.045) and probability values of 0.0049 < α (0.05), with a coefficient of 1.990, it can be concluded that the Capital Structure variable in this study has a positive influence on earnings quality. Because, a company with a high level

of debt can use its debt to fund its operations, so it is possible for the company to make a large profit and be able to pay off the debt from the profits generated.

From the t test analysis obtained t-statistic value of the Company Size of 0.357, while t table with $\alpha = 5\%$ level, df (n-k) = 35-6 obtained t table of 2.045. Thus the t-statistic (0.357) < t table (2.045) and the probability value $0.723 > \alpha (0.05)$, it can be concluded that the firm size variable in this study has no influence on earnings quality. Because, large-sized companies have not guaranteed that the quality of the profits generated by the company will be high. This is due to the fact that large-sized companies have relatively large profit potentials and also have large business risks, because the infrastructure of a large company means that the company's operational costs are also large. From the t test analysis obtained the t-statistic profitability value of -1.527, while t table with $\alpha = 5\%$ level, df (n-k) = 35-6 obtained t table of 2.045. Thus t-statistics (-1.527) < t table (2.045) and probability value $0.1374 > \alpha (0.05)$, it can be concluded that the profitability variable in this study has no influence on earnings quality. Because, a high level of company profitability does not make a guarantee that the company has good performance, it could be that the company has excess debt, losses in the previous year and also inconsistent profit income. From the analysis of t test obtained t-statistic Liquidity value of 1.022, while t table with $\alpha = 5\%$ level, df (n-k) = 35-6 obtained t table of 2.045. Thus the t-statistic (1.022) < t table (2.045) and the probability value of $0.3151 > \alpha (0.05)$, it can be concluded that the variable Liquidity in this study has no influence on earnings quality. Because the level of company liquidity that is too high can also be caused by companies that are unable to manage their current assets optimally. The inability to manage these assets can reduce performance so that there is motivation to manipulate earnings information or perform earnings management practices to obtain earnings information contained in financial statements, which in turn makes earnings quality low.

The research that researchers have done has many shortcomings and limitations. Later the limitations that researchers try to express here become recommendations for similar researchers in the future so that further research results can be better and more perfect. The limitations in this study are as follows: This study only uses populations from companies in the Basic and Chemical Industry sectors which are listed on the Indonesia Stock Exchange (IDX). This study only uses time series data for five years in the period 2014 to 2018 annual financial reporting. The use of independent variables is still only a little 5 variables namely profit growth, capital structure, company size, profitability and liquidity.

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