

ANALYSIS OF THE INFLUENCE OF ACCOUNTING CONSERVATISM, COMPANY SIZE, CAPITAL STRUCTURE, LIQUIDITY AND PROFIT GROWTH ON EARNINGS QUALITY

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Abstract

This study aims to determine the effect of accounting conservatism, firm size, capital structure, liquidity and earnings growth on earnings quality. The population of this research is food and beverage companies listed on the Indonesia Stock Exchange (BEI) in 2015-2019. The sample selection used purposive sampling, resulting in 70 analysis units, 15 outlier data were removed so that 55 analysis units were processed. Hypothesis testing with descriptive statistics and multiple linear regression using SPSS 21. The results show partially accounting conservatism and firm size have a significant positive effect, while capital structure has a significant negative effect on earnings quality. However, there is no effect of liquidity and earnings growth on earnings quality. Simultaneously all dependent variables have an effect on earnings quality. Companies are expected to apply the principle of accounting conservatism in preparing financial statements. Companies should also be careful in making credit or financing decisions from debt, because they have a negative impact on earnings quality. Companies with good performance with evidence of a bigger company size are able to generate higher quality profits. The next researcher should consider other variables and proxies not included in this study to determine their effect on earnings quality. Apart from conducting fundamental analysis, investors and creditors should pay attention to the quality of earnings so that there are no errors in decision making.

Keywords: accounting conservatism, company size, capital structure, liquidity, earnings growth, earnings quality

1. INTRODUCTION

Company management is obliged to publish financial reports as a form of accountability, besides that financial statements also have an important role for users of information. Decision making by users of financial information is based on financial reporting. This is because the financial statements are the interpretation of management's conditions and performance. According to Fathussalmi et. al, (2019), crucial information that becomes a reference in decision making one of them is profit

information. Earnings information plays a role for information users in evaluating company performance, estimating and predicting future earnings, and assessing the risk of investment activities that will be carried out in an entity.

Penman (2001), revealed that quality earnings are *sustainable earnings*, which are viewed from the accrual and cash flow components. In addition, earnings are said to be of quality if they meet the qualitative characteristics of financial statements, namely relevance and reliability so that they can be used as a benchmark by users of information in making decisions (Warianto & Rusiti, 2014). Therefore, quality earnings are needed that are able to reflect the relevant conditions of the company, so as not to mislead information users in their decision making.

Several phenomena related to the quality of corporate earnings occur in Indonesia, one of which is in the food and beverage sector. Research on the quality of earnings in food and beverage companies needs to be done considering that there has been manipulation of the financial statements of PT. Ades Alfindo Putrasetia Tbk (ADES). This case came to light when the new management of PT Ades Alfindo discovered inconsistencies in the recording of sales for the 2001-2004 period (Detik Finance accessed on March 10, 2020). PT Ernst & Young Indonesia (EY) Investigation Report on the new management of PT. Tiga Pilar Sejahtera Food Tbk (AISA) dated March 12, 2019, found that AISA had inflated Rp 4 trillion in its 2017 financial statements. *The mark up* allegedly occurred in accounts receivable, inventories, and fixed assets of the AISA Group. (Detik Finance accessed on March 10, 2020). *The mark up* value is related to the sale of AISA. With data in financial statements showing a higher value, banks will be interested in providing loans, as well as stock prices will increase.

It is possible for a company to suddenly go bankrupt if it practices information manipulation. Based on the ADES and AISA phenomena, it is interesting to conduct research on the quality of earnings in food and beverage companies, given that the *impact* that arises is quite large if companies in this sector go bankrupt. If a company in this sector goes bankrupt, meeting the need for domestically processed food and beverages will experience difficulties and will have an impact on an increase in the unemployment rate. Of course, investors also suffer losses. In order to avoid things that are detrimental, the company must maintain the stability of its performance both now

and in the future. A special indicator is needed, one of which is by reviewing the quality of earnings to determine the level of health and performance of the company and to predict whether a company has the potential to go bankrupt or not.

The food and beverage industry is one of the mainstay manufacturing sectors, because it is able to make a major contribution to national economic growth . This sector is also suspected to continue to have good prospects. This has resulted in high interest in investment in the food and beverage sector. If the earnings information presented does not have good quality, of course it will have a negative impact on investors . This sector is also a labor intensive sector so that if a food and beverage company goes bankrupt it will create unemployment. In addition, the supply of domestically processed food and beverages will experience problems if the companies in this sector experience sudden bankruptcy.

This study aims to examine the effect of accounting conservatism, firm size, capital structure, liquidity and earnings growth on earnings quality. Many have conducted research on various variables that affect earnings quality, but this study is different because it uses a combination of five variables that is more complete in terms of the application of accounting principles, debt, assets, and company profits that have never been used in previous studies.

2. LITERATURE REVIEW

Earnings Quality

Earnings quality can be interpreted as a measure that shows the quality of earnings information provided by the company which is used as a reference for investors in making investment decisions. Management actions that report irrelevant earnings or through methods that inflate earnings result in doubtful earnings quality and can be detrimental to many parties. Therefore, earnings quality is a measure of the truth of earnings information or one of the measuring tools to assess the quality of financial information in financial statements.

Accrued earnings are very vulnerable to elements of policy and method selection, so the amount of accrued earnings does not necessarily reflect the actual quality of profit realization, for that it is necessary to know how much accrued profit is realized from the company's operating activities. This is the background for choosing

the measurement of earnings quality in this study, namely using *representational faithfulness* by calculating the *Quality of Income Rate (QIR)*. This measurement is used because it is able to show the extent to which accrued profit can be realized in the form of *operating cash flow*. So the higher the QIR means the higher the quality of the company's earnings. Referring to the measurements used by Ilhami & Mahmud (2020) which is measured by the following calculation:

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

Grand Theory

This study uses two theories as the basis. The first theory is *agency theory* describing the relationship between the *principal* (owner) and *agents* (management). The relationship is based on an agreement by delegating authority to another party (*agent*), by *principal*. *Agents* are obliged to manage and carry out the company's management functions. The performance is then assessed by the *principal* through the financial statements and other information submitted, one of which is profit information.

The second basic theory applied is positive accounting theory. This theory explains the company's opportunistic actions, namely the freedom of management in choosing several alternative accounting methods that can be used in an effort to achieve optimal profit, efficiency and company effectiveness (Ilhami & Mahmud, 2020). This theory describes three hypotheses, namely the bonus plan hypothesis, the debt contract hypothesis, and the political cost hypothesis. The three hypotheses indicate that positive accounting theory recognizes the existence of three agency relationships, the first hypothesis regarding the relationship between management and owners, the second hypothesis regarding the relationship between management and creditors, the third hypothesis is the relationship between management and government (Ilhami & Mahmud, 2020).

Accounting Conservatism

One of the accounting principles that must be applied is the principle of conservatism. Conservatism is a behavior that is cautious about the uncertainty that exists with the aim of making risk estimates. Conservatism in this study is measured by

accrual conservatism (CONACC), this proxy is used because it is the most relevant to the QIR measurement, which is the same as measuring accruals. This measurement is also used in research Ilhami & Mahmud (2020), with the following formula:

$$\text{CONACC} = \frac{\text{Laba Tahun Berjalan} + \text{Beban Depresiasi} - \text{Arus Kas dari Aktivitas Operasi}}{\text{Total Aset}} \times -1$$

The principle of conservatism is in favor of the investor (*principal*), so as to reduce the existence of information asymmetry even though management has more information than the *principal*. This is because investors can make investment decisions on the basis of profits reported in financial statements prepared with conservative accounting. Khotimah (2016) explains that based on agency theory, accounting conservatism plays a role in overcoming agency conflicts by reducing information asymmetry, through the mechanism of limiting the practice of manipulation or inflation of accrual earnings information by management.

The positive effect of accounting conservatism on earnings quality is proven in the research of Maulita & Putri (2019) and Tuwentina & Wirama (2014) which shows that accounting conservatism has a significant positive effect on earnings quality.

H₁: Accounting Conservatism has a positive and significant effect on Earnings Quality.

Company Size

Company size is a classification of the size of a company that is calculated by a certain size. The size of the company in this study in terms of total assets, taking into account that the value of assets is relatively more stable than the market value of shares, profits and sales. The total asset size is transformed into a natural logarithm to refine the number because the total asset figure is in a fairly large nominal unit and has a wide range from other variable units. The formula for measuring firm size in this study refers to the measurements used by Sudibyo (2013) and Zulman & Abbas (2019), with the following formula:

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

Large companies have their own strategies and strengths in dealing with problems business. The ability to generate company profits is of course also higher because Its

business is supported by substantial *assets* . In this study, the author uses a total approach assets to measure company size . The greater the total assets owned , the greater the size of the company. The larger the size of the company, the condition of a company is relatively more stable and relatively able to generate greater profits. As a result of the ability to generate high profits, it will reduce agency conflict. This is supported by the results of research by Dira & Astika (2014), Karlina (2016), and Sukmawati et. al, (2016) found that firm size has a significant positive effect on earnings quality.

H₂: *Firm size has a positive and significant effect on earnings quality.*

Capital Structure

Capital structure is the proportion of company funding that comes from debt and capital. This study uses the *Debt to Equity Ratio* (DER) to measure the capital structure, which refers to research by (Zulman & Abbas, 2019) . DER was chosen because it is able to reflect the proportion of funding between the total debt to the company's equity which is able to be a predictor of the amount of accrued profit which is part of the equity increase. The DER formula is as follows:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Jumlah Hutang}}{\text{Modal Sendiri (Ekuitas)}}$$

The higher DER reflects the higher proportion of debt compared to capital. Companies with relatively high debt have a greater financial risk in the form of the possibility that the company will not be able to pay its debts. The existence of a default risk can lead to greater costs that must be incurred by the company to overcome this possibility so that it will reduce the company's profit (Zulman & Abbas, 2019) . The higher the company's debt, the greater the funds that will be spent to pay debts and interest costs, so that it will reduce the company's profit and reduce *operating cost cash flow*.

Based on the debt plan hypothesis in positive accounting theory, the higher the debt-to-equity ratio, the closer the company is to the credit regulatory limit. The higher the credit limit, the greater the deviation from the credit agreement and expenses. So that the greater the capital structure derived from debt, the smaller the quality of the profit generated. Managers will choose accounting methods that can increase profits so

as to relax credit limits and reduce the cost of technical errors, so that the company's earnings quality will decrease due to earnings management practices. This is in line with the research of Sukmawati et. al, (2016) and Raspuda & Yuniarto (2017).

H₃: *Capital structure has a negative and significant effect on earnings quality.*

Liquidity

Another variable that is thought to affect the quality of company earnings is liquidity. Liquidity is the company's ability to pay its short-term debt with its current assets. The higher the level of company liquidity, the smaller the risk of uncollectible company debt. Liquidity in this study is proxied by the *current ratio* (CR) , referring to Silfi's research (2016) with the following formula:

$$\text{Current Ratio (CR)} = \frac{\text{Aktiva Lancar}}{\text{Utang Lancar}}$$

Liquidity has an influence on earnings quality because when the company has a good ability to pay its short-term debt, it means the company also has good financial performance in meeting current debt, so the company does not need to practice earnings manipulation to be able to present attractive financial information for investors.

Companies that have good liquidity will also reduce agency conflicts. This is because good liquidity indicates that the company has a good ability to manage its assets, so that it is able to obtain maximum profit and there is no concern about the risk of default on maturing debts, so agency conflicts will be reduced because of the profits received has been as much as possible, and the risk of default is getting smaller. When the company's condition is really good, management does not practice financial statement manipulation. Because of this, the desires of the agent and principal can be aligned. As a result of management not doing earnings engineering, it makes the profits presented are of higher quality. Zulman & Abbas's (2019) research and (Silfi, 2016) shows that liquidity has a significant positive effect on earnings quality.

H₄: *Liquidity has a positive and significant effect on stock returns .*

Profit Growth

The high quality of earnings can also be reflected in the size of the profits themselves. Companies that have profits that continue to grow show that their financial performance is good and has the possibility of growing earnings quality as well (Irawati,

2014). Profit growth in this study refers to the measurement used by Anggraini & Septiano (2019) with the following formula:

$$\text{Profit Growth (PL)} = \frac{\text{Laba bersih tahun } t - \text{Laba bersih tahun } t-1}{\text{Laba bersih tahun } t-1}$$

If the company has the opportunity to grow, it reflects the company's ability to increase its profits in the future and shows that the profit generated is of quality because it is able to maintain continuity of profit growth. That way, when the company has the opportunity to grow its profits in a sustainable manner, it means that the company's financial performance is also good and the information contained in its financial statements can be trusted. So profit growth has a positive effect on earnings quality.

The company's profit growth is allegedly able to minimize agency conflicts that usually occur. Thus, the profit growth variable is able to realize the goals of agency theory, where good profit growth will reflect good earnings quality. Profit that is able to grow, illustrates the ability of management to manage the company by generating profits that continue to show growth. The company's profit growth is able to satisfy the owner and also makes the management will be judged to have work performance as it can be an indication that the company's management in managing the company continues to strive to display quality earnings. Because of the alignment of these positions, the agency conflict is resolved. The research of Syawaluddin et. al, (2019) shows the results that profit growth has a positive effect on earnings quality.

H₅: *Profit Growth has a positive and significant effect on Earning Quality.*

Based on the framework of thinking, the research model is shown in Figure 1.

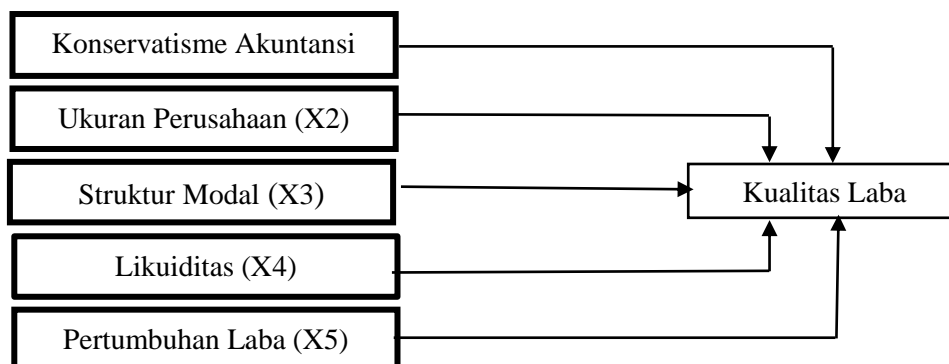


Figure 1. Research Model

3. RESEARCH METHODS

This research is a quantitative research category with secondary data sources . Food and beverage companies that are listed on the Indonesia Stock Exchange in 2015-2019 are the population in this study. *Purposive sampling technique* became the research sample selection method and obtained 70 units of analysis but found 15 *outlier data* which were then deleted, so that 55 units of analysis were obtained which were processed with SPSS 21 software. Sample selection was based on criteria : 1) Companies in the food and beverage sub-sector that consistently listed on the Indonesia Stock Exchange in 2015-2019, namely 14 companies or 70 units of analysis. 2) Food and beverage companies that have a complete annual report that has been audited for the period ending December 31 in 2015-2019 are published, as many as 14 companies or 70 units of analysis. From 70 units of analysis, 15 *outliers were found* and deleted, so that only 55 units of analysis were processed.

The test was carried out using descriptive statistical analysis, classical assumption test, and multiple linear regression as data analysis techniques. The data was processed using IBM SPSS *Statistics* 21. The significance level that is used as the basis for decision making is 5%. The regression model is formulated in equation (1).

$$QIR = _ + CONACC + LN_TA - DER + CR+ PL+(1)$$

4. RESULTS AND DISCUSSION

Descriptive statistical analysis is useful in understanding data descriptions or data descriptions which include *maximum*, *minimum*, average (*mean*), median as well as standard deviation (Ghozali, 2018). Table 2 shows the results of descriptive statistical tests.

Table 1

Descriptive Statistical Analysis Test

	N	Minimum	Maximum	mean	Std. Deviation
X1_CONACC	55	-,113	, 108	-, 00801	, 045496
X2_LNTA	55	26,656	32,201	29,05847	1.545094
X3_DER	55	, 100	1,870	, 96890	, 474656
X4_CR	55	, 580	4,844	1,97406	1,046344
X5_PL	55	-2,449	2,051	, 18933	, 715816

Y_QIR	55	-1,501	2,738	,97693	,827163
Valid N (listwise)	55				

Source: Data Processed, 2020

The feasibility of the research regression model is known through the classical assumption test. *One-Sample KS* normality test shows a significance value 0.4400 which is greater than *alpha*, so it can be concluded that the data distribution is normal in this study. All independent variables have a *tolerance* of more than 0.10 and a VIF of less than 10, so the model is free from multicollinear problems. In *run tet* the probability value is 0.221 (more than *alpha*), it means that in the model there is no sign of autocorrelation. The *white* test heteroscedasticity test shows *R square* 0.230 with 55 units of analysis, so the calculated c^2 value is 12.65. The table c^2 value is 72.15322. The value of calculated $c^2 < c^2$ table, then the research model is homoscedastic. The ANOVA test results show a significance of 0.000, the value is less than *alpha*. Thus, the variables of accounting conservatism, firm size, capital structure, liquidity, and earnings growth significantly affect earnings quality.

Multiple linear regression was used to test the research hypothesis . Multiple linear regression test concluded the results in equation (2) and the results of hypothesis testing are summarized in table 4.

$$QIR = -2.062 + 8.345 \text{ CONACC} + 0.126 \text{ UP} - 0.593 \text{ DER} - 0.014 \text{ CR} + 0.119 \text{ PL} + \dots(2)$$

Table 2
Hypothesis Test

No	Hypothesis	Information	β	Sig	Results
1	H1	Accounting conservatism has a significant effect on earnings quality, positively.	8,345	0.000	Accepted
2	H2	company size has a significant effect on earnings quality.	0.126	0.038	Accepted
3	H3	Capital structure has an effect on earnings quality , with a significant negative effect.	-0.593	0.039	Accepted
4	H4	There is a significant effect of liquidity on earnings quality, positively.	-0.014	0912	Rejected
5	H5	Significantly positive , earnings growth has an effect on earnings quality.	0.199	0.106	Rejected

Source: Data Processed, 2020

The Effect of Accounting Conservatism on Earnings Quality

The individual variable test proves that accounting conservatism with a positive direction has a significant effect on earnings quality. Recognition of conservatism was born from the idea that companies face uncertain future economic conditions so that companies use the measurement and recognition of financial statement results carefully and consider the risks that may be experienced is very necessary.

This principle of conservatism limits the opportunistic behavior of managers in presenting earnings, namely the behavior of presenting excessive profits in financial statements which is intended to attract investors to invest. This is in accordance with what is explained in agency theory that there is information asymmetry between management and owners which makes it easier for managers to commit fraud or present inaccurate information. So that according to the concept of earnings quality, accounting conservatism certainly has a positive effect on earnings quality, because quality earnings are earnings that describe the actual or relevant situation without being exaggerated or reduced.

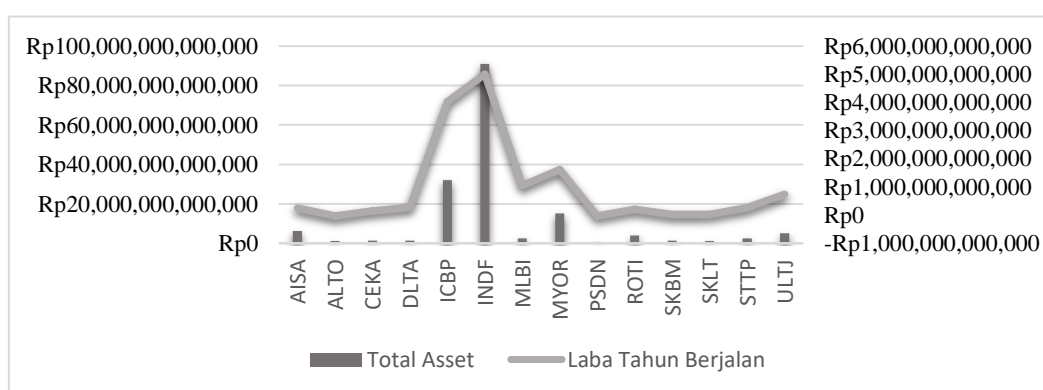
The results of this study are also in line with positive accounting theory. In positive accounting theory, management has the freedom to choose the accounting procedures to be applied in the company. By applying conservative accounting and not deviating from accounting standards, earnings information is said to be of high quality (Ilhami & Mahmud, 2020) . Based on some of the descriptions above, the relationship that occurs between accounting conservatism and earnings quality is a positive relationship, namely the use of accounting conservatism principles makes the reported earnings quality better. On the other hand, according to agency theory, conservatism can reduce management's opportunistic behavior so that the interests between agents and principals are aligned.

The data proves the positive effect of conservatism on earnings quality. This is evident from ICBP's conservatism data (CONACC), which has increased since 2016, 2017 and 2019 which was followed by an increase in earnings quality in that year, a decrease in accounting conservatism in 2018 which was also followed by a decrease in earnings quality. In 2015 ICBP's accounting conservatism showed a figure of 0.001 with earnings quality of 1.192, in 2016 accounting conservatism rose to 0.012 followed by the value of earnings quality which increased to 1.263, similarly in 2017 the increase in

accounting conservatism to 0.030 was accompanied by earnings quality of 1.460. When ICBP's accounting conservatism decreased in 2018 to -0.025, it was also followed by a decline in earnings quality to 0.999. Likewise, in 2019, ICBP again experienced an increase in accounting conservatism to 0.026 and was followed by another increase in earnings quality to 1,380. This shows the unidirectional effect of the increase in conservatism. In previous studies, there were also several researchers which shows the same results as this study, as in the research of Maulita & Putri (2019) and (Karlina, 2016).

The Effect of Firm Size on Earnings Quality

The results state that there is a significant positive effect of firm size on earnings quality. Company size can be interpreted as a classification of the size of the company as measured by a certain standard size. Large companies are considered capable of having performance that continues to increase so that the profits generated also have good earnings quality that does not come from earnings management practices. This is because the larger the size of a company, the easier it is to earn a profit. As a result of this, the principal will be satisfied with the performance of management, and management will also be an achievement when it is able to generate higher and quality profits when it has bigger assets.



Source: Data Processed, 2020

Figure 2. Average Total Assets and Average Profit for the Current Period in Food and Beverage Companies 2015-2019.

The size of the company is reflected in total assets, so the greater the total assets, the greater the size of the company. The larger the size of the company, it can be said that the condition is relatively more stable and able to generate greater profits. This is

reflected in the average total assets and average profit for the current period at food and beverage companies in 2015-2019 which is presented in Figure 2.

Based on Figure 2, it can be seen that when a company has a larger size, it has the ability to generate higher profits and *cash flow*. The ability to generate higher corporate profits because the business is supported by large enough assets. In previous studies there were also several researchers who argued that company size affects the quality of company earnings, including the research of Dira & Astika (2014), Karlina (2016), and Sukmawati et. al, (2016).

The Effect of Capital Structure on Earnings Quality

The results of the study based on the results of statistical tests indicate that the capital structure as proxied by DER has a negative direction that has a significant effect on earnings quality. Capital structure is a measure that shows the proportion of company funding originating from debt divided by company capital. Positive accounting theory is also able to explain the relationship of capital structure to earnings quality. it is based on the bonus plan hypothesis and the debt contract hypothesis. The bonus plan hypothesis states that the firm will tend to do earnings management by increasing profits in the current period to get the bonus. The debt contract hypothesis states that the higher the debt/equity of the company, the closer the company is to the limitations contained in the debt agreement or the due date of payment and the greater the possibility of a violation of the agreement such as late payment which then raises the cost of technical failure (fines), the more likely managers are to use these methods profit-enhancing accounting. These actions can affect the quality of earnings reported by the agent (Ilhami & Mahmud, 2020). When the company has a high level of debt, the quality of the company's earnings tends to be lower due to the large burden borne by the company which causes *operating cash flow and* profits to decline.

This is evident from data sourced from ICBP's 2016 financial report that the Company's ability to pay all of its obligations improved at the end of 2016. This was reflected in the decline in the DER ratio to 0.56 times in 2016 from 0.62 times in 2015. this was followed by an increase in equity due to an increase in profit in 2016 compared to 2015. The increase in profit was due to lower interest expenses. This is in accordance with information from management's analysis and discussion in ICBP's 2016 financial

report, where the interest coverage ratio increased to 32.2 times in 2016 from 18.7 times in 2015, mainly due to lower interest expenses in line with lower debt. average. This increase in profit was also followed by an increase in net cash flow from ICBP's operating activities, which amounted to Rp4.58 trillion in 2016, higher than Rp3.49 trillion in the previous year.

These results are in line with research by Raspuda & Yuniarto (2017) which shows that capital structure has a negative effect on earnings quality, as well as the results of research by Salma & Riska (2019) .

The Effect of Liquidity on Earnings Quality

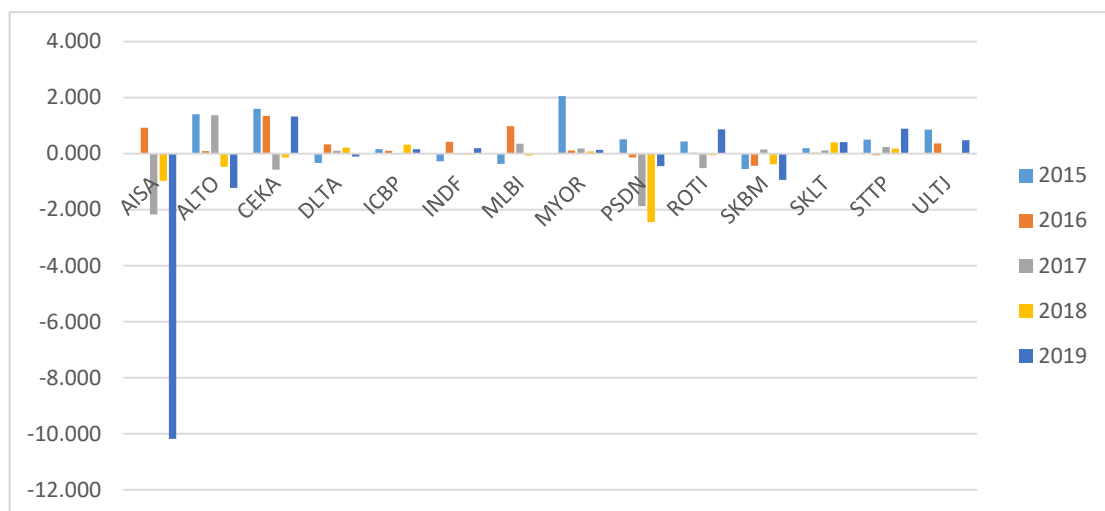
The results of the study based on the results of statistical tests indicate that the liquidity that is produced by the *current ratio* (CR) has a negative but not significant relationship with earnings quality. Liquidity is a ratio used to measure the company's ability to pay off its short-term obligations and is a reflection of the company's financial performance. The average result on the liquidity variable shows a value of 1.97406. The average liquidity value shows that the liquidity of food and beverage companies is still below normal. Hanafi & Halim (2012:75) state that the current ratio for normal companies is around 2, although there is no definite standard for determining the current ratio that should be. Due to the below-normal average liquidity, the company's management tries to improve the performance which is reflected in liquidity without paying attention to the quality of earnings. Good company performance allows the company's efforts to increase its profits but does not guarantee that the profits earned are quality profits. According to the bonus mechanism hypothesis in positive accounting theory, managers may have incentives to fulfill their own desires. The encouragement can be in the form of motivation to get bonuses, promotions, and others. The existence of efforts to improve the company's financial performance does not guarantee that there is a desire to pay attention to the quality of earnings. So it can be said that liquidity has no effect on earnings quality.

The sample companies in this study that have the highest level of liquidity are owned by PT. Ultrajaya Milk Industry (ULTJ) in 2016 with a CR value of 4,844. The company has the highest level of liquidity compared to other sample companies, but the maximum value of earnings quality is not achieved by ULTJ, but is owned by PT. Nippon Indosari Corpindo Tbk (ROTI) in 2017 with a value of 2,738, while the value of

earnings quality from PT. Ultrajaya Milk Industry (ULTJ) is only 1,098. SKBM in 2016 as the owner of the lowest earnings quality throughout 2015-2019 with a value of -1.501, in fact has a higher liquidity value than ULTJ which is 1.110. Based on these data, it can be seen that high liquidity cannot be said that the quality of company earnings is also high. So that liquidity has no effect on earnings quality. The results of this study are in line with research by Salma & Riska (2019) and research by Dira & Astika (2014) which states that liquidity does not affect the earnings quality of food and beverage companies.

The Effect of Profit Growth on Earnings Quality

The results showed that earnings growth had a positive and insignificant relationship with earnings quality. Profit growth generated for five years shows profit growth which has experienced extreme fluctuations so that the role of inconsistent profit growth is not able to predict earnings quality. In line with agency theory, if the company's profits *continue to grow*, it will reduce information asymmetry and improve earnings quality because it indicates that management is not only oriented to current bonuses as described in the bonus plan hypothesis in positive accounting theory. As a result of the profit growth generated during the five years of the study, it showed quite extreme fluctuations and did not show *continuous growth*, so profit growth had no effect on earnings quality . Profit fluctuations can be seen in Figure 4.4 following:



Source: Data Processed, 2020

Figure 4. Profit Growth Fluctuation Graph

The results of this study indicate that profit growth has no effect on earnings quality, this is in line with the results of , and Dira & Astika (2014) who found that earnings growth had no effect on earnings quality.

5. CONCLUSIONS

Based on the results of testing and data analysis, it can be concluded that accounting conservatism and company size in food and beverage companies in 2015-2019 can affect earnings quality positively and significantly, while capital structure affects earnings quality significantly negatively.

Research Implications

In accordance with the objectives and benefits of the research, this research has implications:

a. For Company Management

This research is expected to provide benefits and motivation for companies to improve the quality of their earnings, because good earnings quality can increase investor interest in investing in the company. This research can also be used as a literature on the importance of accounting conservatism, firm size and capital structure in increasing or decreasing the quality of earnings in the company.

b. For Investors

This research is expected to provide information to investors regarding the quality of earnings so that they can be taken into consideration in making investment decisions in addition to conducting stock fundamental analysis .

c. For Researchers

This research is expected to be a reference and increase knowledge in conducting future research on factors that affect earnings quality in food and beverage companies listed on the Indonesia Stock Exchange.

Research Limits

The research is limited to the use of five variables and the object of research only focuses on food and beverage companies . Suggestions for further research are to consider other variables that are not included in this study and to examine a wider research object. Further researchers can also extend the research period.

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