

THE EFFECT OF CAPITAL STRUCTURE AND COMPANY SIZE ON PROFIT QUALITY IN MANUFACTURING COMPANIES IN THE 2019-2022 PERIOD

(The Influence Of Capital Structure And Company Size On The Earning Quality)

Abdul Ghofur

Universitas Islam Lamongan

Abdullghofur1@gmail.com

Abstract

This study aims to examine the effect of capital structure and company size on earnings quality. This type of research is quantitative research. This study uses secondary data obtained from the company's annual report. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019- 2022 period. While the sample in this study was obtained using the purposive sampling method, namely the selection of samples with predetermined criteria, based on this method, 115 companies were obtained from 125 manufacturing companies. The analysis method used in this study is multiple linear regression analysis using the Stata 17 application program. The results of this study indicate that the capital structure variable measured using leverage states that capital structure has a significant effect on earnings quality, while company size measured using the natural logarithm of total assets states that company size has a significant effect on earnings quality.

Keywords: Ethical Leadership style, Integrity Leadership style, Ethical work environment, Employee performance

INTRODUCTION

The increasingly global market development has led to competition between companies in Indonesia. Especially the tight competition in the business world that is currently happening is caused by profit growth and technological advances (Roychowdhury, 2012). In these conditions, companies are required to increase profits and improve company performance because investors will be interested in investing in companies that have higher profits compared to lower profits (Silfi, 2016). Efforts made to increase profits and company performance are by assessing the company's financial reports produced each period (Sadiah, 2015).

Financial reports have a very important role in disclosing financial information and company profit information. Financial reports can be said to be a tool to explain financial information regarding the responsibility of a management for its performance (Wati & Putra, 2017). However, there is a company management that takes action to report profits that are not in accordance with the condition of the company, or can be said to manipulate profits which have an impact on the resulting profit being of questionable quality.

Recently, financial reports have become an issue in the midst of the government as a source of misuse of information that can harm interested parties. An example of a phenomenon in 2019 was at PT Garuda Indonesia Tbk (GIAA), it was known that GIAA recorded a net profit, one of which was supported by cooperation between GIAA and PT Mahata Aero Teknologi (Safitri & Amin, 2024). The cooperation reached IDR 3.48 trillion. The funds were actually still receivables with a contract valid for the next 15 years, but had been recorded in the first year and recognized as income which was then included in other income (Sampurno, Respati, & Susanti, 2023). This oddity was detected by two commissioners who did not want to sign the 2018 financial report. PPPK and OJK decided that there was an error in the presentation of GIAA's 2018 financial report and the company was fined IDR 100 million. After adjusting the company's records, it finally recorded a loss of IDR 2.53 trillion. There is a difference of US\$ 180 million reported in the 2018 financial report. In 2018 the company reported a profit of Rp. 72.5 billion. (Ida & Astika, 2015)

This phenomenon requires companies to produce quality profits. Profit quality is the quality of profit information available to the public that is able to show the extent to which profits can influence decision making and can be used by investors to assess the company (Syawaluddin, I Wayan Sujana, 2019). Quality profit is profit that can describe the operational performance of a company in that period, can be an indicator or benchmark for company performance (Sari & Wiyanto, 2022). There are several factors that can affect the quality of profits in a company, such as capital structure and company size (Nurjanah & Abadi, 2019; S. S. Salsabila & Permatasari, 2023).

Capital structure measured using leverage is a variable to determine how much of a company's assets are financed by the company's debt (Irawati, 2012). The debt owned by the company is related to the profits obtained by the company (Keshtavar, Ali., Mueinaddin, Mahmoud., Dehnavi, 2013), the higher the debt in a company, the more dynamic or enthusiastic the company is (Arisonda, 2018). Company size is a classification of companies that can be divided into small, medium and large companies (Anggrainy, 2019). Large companies have more advantages compared to small and medium sized companies (Anggrainy, 2019; Pramana & Mustanda, 2016). Among them are being able to obtain funds from the capital market easily and being able to determine bargaining power in various contracts related to the company's operations (Wati & Putra, 2017).

Research conducted by (Dira & Astika, 2014; N. T. Salsabila, Maidani, & Eprianto, 2024; Syawaluddin, I Wayan Sujana, 2019), shows that the variables of capital structure and company size have a significant effect on earnings quality, a positive sign indicates that there is a unidirectional relationship between capital structure and company size with earnings quality.

HYPOTHESIS

Capital structure is the amount of equity value and liability value that can fund a company. Companies that have large debts, then the debt and interest that must be paid are also large (Riska Ananda & Ningsih, 2016). This can cause the company to experience financial difficulties. A company that has a high level of leverage means that the company has a lot of debt from external parties, as a result the company has a high financial risk due to excessive debt (Sadiah, 2015).

Measurement of capital structure using leverage , the results of research conducted by (Anggrainy, 2019; Sadiyah, 2015) stated that capital structure has a negative effect on earnings quality. The results of research conducted by (Syawaluddin, I Wayan Sujana, 2019) stated that capital structure has a significant effect on earnings quality. The resultsof research conducted by (Arisonda, 2018) stated that capital structure has a positiveand insignificant effect on earnings quality. The results of research conducted by (Irawati, 2012) stated that capital structure has an effect on earnings quality. Basedon the results of the research above, the hypothesis proposed is as follows:

H 1 : It is suspected that capital structure has an effect on profit quality in manufacturing companies listed on the IDX.

Company size is a measure of the size of a company. Companies with a larger scalewill get loan benefits more easily than small companies because collateral in the form of assets owned by large companies has a greater value than small companies.The results of research conducted by (Syamsudin & Primayuta, 2017) stated that companysize has a significant effect on profit quality, the results of research conducted by (Anggrainy, 2019) stated that company size has a positive effect on profitquality, the results of research conducted by (Arisonda, 2018) stated that company size has a negative effect on profit quality, the results of research conducted by (Irawati, 2012) stated that company size has an effect on profit quality. Based on theresults of the research above, the hypothesis proposed is as follows:

H 2 : It is suspected that company size has an effect on profit quality in manufacturing companies listed on the IDX.

RESEARCH METHODS

This study is a quantitative research method using secondary datain the form of panel data. The population in this study was 125 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2022 period, using a purposive sampling technique , then 115 companies were obtained. Data collection used a documentation method which included secondary data in the form of financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) and literature studies of various literature related to research such as journals and scientific papers. The analysis model used is panel data regression analysis (Sugiyanto, Syafrizal, & Kartolo, 2020). This study uses Stata software version 17 andin data grouping using Microsoft Office.

RESULTS AND DISCUSSION

Descriptive Analysis

Table 1. Descriptive Analysis Results

Variables	N	Mean	Std. Dev	Min	Max
BRAKE	451	2.594465	7.113301	-8.902896	60.47195
LEV	451	1.280165	2.693826	-10.176\	23.9173
SIZE	451	28.75698	1.738001	22.78748	33.65519

Source: Stata 17 data processing results, secondary data processed(2024)

Measurement of earnings quality in this study is measured using the REM (Real Earning Management) formula. The average value (mean) of earnings quality is 2.594465 with a standard deviation of 7.113301. The minimum value of earnings quality is owned by PT. Wismilak Inti Makmur Tbk (WIIM) in the 2021 period, which is - 8.902896. While the maximum value of earnings quality is owned by PT. Primarindo Asia Infrastructure Tbk (BIMA) in the 2019 period, which is 60.47195.

The capital structure variable has a minimum value of -10.176 owned by PT. Eterindo Wahanatama Tbk (ETWA) in the 2021 period. While the maximum value of the capital structure of 23.9173 is ownedby PT. Tirta Mahakam Resource Tbk (TIRT) in the 2019 period. It has an average value of 1.280165 and a standard deviation of 2.693826.

The company size variable has a minimum value of 22.78748 owned by PT. Bentoel Internasional Investama Tbk (RMBA) in the 2022period. While the maximum value of company size is 33.65519 owned by PT. Astra Internasional Tbk (ASII) in the 2022 period. It has an averagevalue of 28.75698 and a standard deviation of 1.738001.

Multiple Linear Regression Analysis

Table 2. Results of Multiple Linear Regression Analysis

BRAKE	B	T	Sig	Std. E
(Constant)	54.76437	11.00	0.000	4.980535
LEV	-0.1991868	-1.79	0.075	0.1115256
SIZE	-1.805298	-10.44	0.000	0.1728599

Source: Stata17 data processing results, secondary data processed(2024)

From the results of multiple linear regressionanalysis, the regression equation model used in this study is:

$$REM = 54.76437 - 0.1991868 LEV - 1.805298 SIZE + e$$

The results of the multiple linear regression analysis above can be concluded that:

- a. The value of the constant (α) is 54.76437 which is positive, meaning that if the value of the capital structure (Leverage) and the value of the company size (Size) are considered non-existent or equal to 0, then the earnings quality (REM) has a positive value, namely 54.76437 with a significance level of 0.000.
- b. The value of the regression coefficient of the capital structure variable (Leverage) is -0.1991868 which is negative, meaning that every one unit increase in capital structure will result in a decrease in profit quality of -0.1991868 assuming other variables remain constant.
- c. The value of the regression coefficient of the company size variable (size) is -1.805298 which is negative, meaning that if every one unit increase in company size, the profit quality will decrease by -1.805298 assuming other variables remain constant.

T-Test (Partial Test)

Table 3. Results of t-Test (Partial)

BRAKE	B	T	Sig	Std. E
(Constant)	54.76437	11.00	0.000	4.980535
LEV	-0.1991868	-1.79	0.075	0.1115256
SIZE	-1.805298	-10.44	0.000	0.1728599

Source: Stata17 data processing results, secondary data processed (2024)

With a confidence level of 10% or 0.1, the formula for t table = α ; nk-1, where n is the number of samples, k is the number of independent variables, so that t table = 0.1; 451-2-1 = 0.1; 448, then t table = 1.28344. If the calculated t value > t table then there is an influence between the independent variables on the dependent variable or if the calculated t < t table then there is no influence between the independent variables on the dependent variable or if the significant value t < 0.1 means there is a significant influence between the independent variables on the dependent variable. From the test results based on the table above, it can be concluded that:

- a. First hypothesis testing
Capital structure (leverage) has an effect on profit quality showing a calculated t value of -1.79 < 1.28344 from the t table value and from a significant value of 0.075 < 0.1, then H0 is rejected and H1 is accepted, which can be interpreted that capital structure (leverage) has a partial and significant effect on profit quality in the 2019-2022 period.
- b. Second hypothesis testing
Company size (size) has an effect on profit quality, showing a calculated t value of -10.44 < 1.28344 from the t table value and from a significant value of 0.000 < 0.1, then H0 is rejected and H1 is accepted, which can be interpreted that company size (size) has a partial and significant effect on profit quality in the 2019-2022 period.

Tabel 4 F Test (Goodness of Fit) Table 4. F test results

Model	R Squared	Df	Adjusted R Squared	F	Sig
Residual Total	0.2009	2 448 450	0.1974	56.33	0.0000

Source: Stata17 data processing results, secondary data processed(2024)

Based on the table above, it shows that the Adjusted R Square value is 0.197, which means that the capital structure and company size variables have an influence on earnings quality of 19.7%. Thus, there are 80.3% of other variables that have an influence on earnings quality other than the capital structure and company size variables.

The calculated F value in this study is 56.33 which can be seen in the table above, with a significance value of 0.000 which is smaller than the significance value of α 0.1 so that it can be concluded that the goodness of fit regression model where the capital structure and company size variables are appropriate as explanatory variables for earnings quality, which can be interpreted that the capital structure and company size variables simultaneously affect earnings quality.

CONCLUSION

The influence of capital structure (leverage) on earnings quality is significant but has a negative relationship, because the level of leverage in the company is one of the things that can be considered by investors due to the large or small amount of debt that can affect the quality of earnings in a company. While the negative sign in the test in this study because companies that have a high level of leverage can result in low earnings quality, and make the resulting earnings quality high. The influence of company size on profit quality is significant but has a negative relationship, because if a company has large total assets, it shows that the company has good financial performance and generates high profits, so the profit quality is good. Investors tend to invest their capital in large companies.

REFERENCES

- Angrainy, L. (2019). Pengaruh Struktur Modal, Pertumbuhan Laba, Kualitas Audit, Dan Ukuran Perusahaan Terhadap Kualitas Laba. *Jurnal Ilmu Dan Riset Akuntansi*, 8(6), 1–20.
- Arisonda, R. (2018). Pengaruh Struktur Modal, Likuiditas, Pertumbuhan Laba, Ukuran Perusahaan, dan Investment Opportunity Set (IOS) Terhadap Kualitas Laba di Perusahaan Manufaktur yang Terdaftar di BEI pada Tahun 2015-2017. *ADVANCE Journal of Accounting*, 5(2), 42–47.
- Dira, K., & Astika, I. (2014). Pengaruh Struktur Modal, Likuiditas, Pertumbuhan Laba, Dan Ukuran Perusahaan Pada Kualitas Laba. *E-Jurnal Akuntansi*, 7(1), 64–78.
- Ida, K. P. D. dan, & Astika, B. P. (2015). Pengaruh Struktur Modal, Likuiditas dan Ukuran Perusahaan pada Kualitas Laba. *E-Jurnal Akuntansi Universitas Udayana.*, 1, 64–78.

- Irawati, D. E. (2012). Pengaruh Struktur Modal, Pertumbuhan Laba, Ukuran Perusahaan Dan Likuiditas Terhadap Kualitas Laba. *Accounting Analysis Journal*, 1(2), 1–6. <https://doi.org/10.15294/aaj.v1i2.572>
- Keshtavar, Ali., Mueinaddin, Mahmoud., Dehnavi, H. D. (2013). Need for Capital Structure in the World Today. *International Journal of Modern Management Sciences*, 2(2), pp: 67-74.
- Nurjanah, S., & Abadi, F. (2019). Pengembangan Wirausaha Budi Daya Dan Pemasaran Jahe Merah. *BERDAYA: Jurnal Pendidikan Dan Pengabdian Kepada Masyarakat*, 1(2), 61–66. <https://doi.org/10.36407/berdaya.v1i2.109>
- Pramana, I. G. N. A. D., & Mustanda, I. K. (2016). PENGARUH PROFITABILITAS DAN SIZE TERHADAP NILAI PERUSAHAAN DENGAN CSR SEBAGAI VARIABEL PEMODERASI Fakultas Ekonomi dan Bisnis Universitas Udayana (Unud), Bali , Indonesia PENDAHULUAN Perusahaan sebagai salah satu entitas ekonomi di suatu negara sudah se. *E-Jurnal Manajemen Unud*, 5(1), 561–594.
- Riska Ananda, & Ningsih, E. S. (2016). PENGARUH LIKUIDITAS, KEPEMILIKAN INSTITUSIONAL, DAN UKURAN PERUSAHAAN TERHADAP KUALITAS LABA. *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi (JIMEKA)*, 1(2), 277–294.
- Roychowdhury, S. (2012). Earnings management through real activities manipulation. *Journal of Accounting and Economics*. <https://doi.org/10.1016/j.jacceco.2006.01.002>
- Sadiah, H. (2015). Pengaruh Leverage, Likuiditas, Size, Pertumbuhan Laba dan IOS terhadap Kualitas Laba. *Jurnal Ilmu & Riset Akuntansi*, 4(5), 1–21. Retrieved from www.idx.co.id
- Safitri, M. L., & Amin, M. N. (2024). THE EFFECT OF LIQUIDITY LEVERAGE AND COMPANY SIZE ON EARNINGS QUALITY WITH PROFITABILITY AS A MODERATION VARIABLE. *Journal of Business and Management Review*, 5(5), 376–386. <https://doi.org/10.47153/jbmr55.9692024>
- Salsabila, N. T., Maidani, & Eprianto, I. (2024). PENGARUH STRUKTUR MODAL, UKURAN PERUSAHAAN DAN PROFITABILITAS TERHADAP KUALITAS LABA (Studi Kasus pada Perusahaan Sektor Perbankan yang Terdaftar di Bursa Efek Indonesia Tahun 2020-2022), 3(3), 1419–1438.
- Salsabila, S. S., & Permatasari, C. L. (2023). Pendeteksian Kecurangan (Fraud) Laporan Keuangan Oleh Auditor Eksternal Melalui Bukti Audit. *Jurnal Ecodunamika*, 4(2), 1–8. Retrieved from <https://ejournal.uksw.edu/ecodunamika/article/view/7679#>
- Sampurno, S. A., Respati, D. K., & Susanti, S. (2023). the Influence of Independent Commissioners, Audit Quality, and Financial Distress on Earnings Management. *Marginal Journal of Management Accounting General Finance and International Economic Issues*, 2(4), 1024–1036. <https://doi.org/10.55047/marginal.v2i4.788>
- Sari, W., & Wiyanto, H. (2022). Pengaruh Struktur Modal, Ukuran Perusahaan dan Profitabilitas terhadap Kualitas Laba Perusahaan. *Jurnal Manajerial Dan Kewirausahaan*, 4(3), 701–711. <https://doi.org/10.24912/jmk.v4i3.19764>

- Silfi, A. (2016). Pengaruh Pertumbuhan Laba, Struktur Modal, Likuiditas dan Komite Audit Terhadap Kualitas Laba. *Jurnal Valuta*, 2(1), 17–26. Retrieved from file:///C:/Users/T410/Downloads/valuta,+Journal+manager,+2.+Alfiati+Silfi-UPDATE (1).pdf
- Sugiyanto, Syafrizal, & Kartolo, R. (2020). the Effect of Income Persistency , Capital Structure and Tax Allocation Between Period of Earning Quality With Company, 461–482.
- Syamsudin, & Primayuta, C. (2017). PENGARUH PROFITABILITAS, LIKUIDITAS DAN UKURAN PERUSAHAAN TERHADAP KUALITAS LABA PADA PERUSAHAAN MANUFAKTUR YANG TERDAFTAR DI BURSA EFEK INDONESIA. *Jurnal Wira Ekonomi Mikroskil*, 7(02), 227–236.
- Syawaluddin, I Wayan Sujana, H. S. (2019). Pengaruh Struktur Modal, Likuiditas, Ukuran Perusahaan, Pertumbuhan Laba Dan Profitabilitas Terhadap Kualitas Laba. *Jurnal Ilmiah Mahasiswa Fakultas Ekonomi UM.Buton*, 1(1), 1–15.
- Wati, G. P., & Putra, I. W. (2017). PENGARUH UKURAN PERUSAHAAN, LEVERAGE, DAN GOOD CORPORATE GOVERNANCE PADA KUALITAS LABA. *E-Jurnal Akuntansi*, 19, 137–167.