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The Effect of Leverage, Profitability, Liquidity, and Firm Size on Earnings Quality (Empirical Study on the Hotel Sub-Sector Service Company, Restaurant & Tourism on the Indonesia Stock Exchange for the period 2016-2020)

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Abstract

Earnings quality reflects how much the company's profits are presented in accordance with the company's circumstances in that year. The better disclosure is done by the company would affect greater quality of profits owned by the company. This caused by the concept of transparency. Segment information is needed by users of financial statements to see the economic characteristics of each segment within the company. The dependent variable in this study is earnings quality, the independent variables are leverage, profitability, liquidity, and company's size. This research is a type of quantitative research using companies' financial statements. Total samples collected are 70 financial statements comes from 14 company. The sampling method is purposive sampling method. The results of this study indicate that leverage, profitability, and firm size partially affect earnings quality. Meanwhile, liquidity has no effect on earnings quality. The leverage, profitability, liquidity, and company size simultaneously affect the earnings quality in the hotel, restaurant and tourism sub-sectors listed on the IDX for the 2016-2020 period.

Keywords: Leverage, Profitability, Liquidity, Firm Size, Earnings Quality.

1. Introduction

The world economy is currently experiencing rapid development which is marked by the increasing complexity of various business activities in each sector. This causes more parties who have an interest in their own company. The needs of financial statement automatically increased. A complete financial statement created by the company will be very helpful and useful within the company (Susanti, 2020).

Financial statement is a form of communication between internal parties such as managers and external parties such as investors, creditors or other interested parties. Financial statement contains information provided by the manager as a form of accountability for the resources provided to the company. One of the information as stated is income. Net income reported in the financial statements are known as an important performance evaluation criterion and determinant of company value which is always used by many professional users such as accountants, financial managers, stock market analysts, investors, and shareholders (Brigham and Houston, 2015).

Income used as an indicator to measure the performance of a company. Earnings quality could possibly be seen from the actual financial performance. Earnings quality could be determined best if the income reflects the sustainability of future profits based on the components of accruals and cash flow (Dechow, et al., 2010). Income section is one of the most important parts of the financial statements which much concern to external parties, especially investors and creditors. The income statement is a report that provides information about the company's earnings in a single period.

Earnings quality is an assessment of the extent to which a profit can be obtained repeatedly and can reflect the company's actual financial performance. Investors, potential investors, financial analysts, and other users of financial information must have a good picture of the actual earnings quality (Setiawan, 2017). Earnings quality can be used to make an accurate assessment of current performance and can be used as a basis for predicting the future performance. Earnings quality is the income that is presented based on a balance sheet which allows an accurate assessment of risks such as liquidity, financial flexibility, and solvency (Murniati et al., 2018).

Various industries have different strategies in determining the quality of earnings especially the tourism sub-sector. In the last few decades, the tourism sub-sector has experienced significant losses due to pandemic conditions. The country's foreign exchange earnings from the tourism sector have also declined significantly. According to the Minister of Tourism and Creative Economy, Sandiaga Uno on the bps.go.id website, the projected foreign exchange earnings from tourism in 2020 are between US$4-7 billion. Before the pandemic occurred, tourism foreign exchange earnings in 2020 were targeted at US$ 19-21 billion. When compared to 2019, the decline was quite significant because tourism foreign exchange receipts in the previous year almost reached 20 billion US dollars.

Leverage is one of the indicators that influencing earnings quality. Leverage is the ratio used to find out how big an asset financed by corporate debt (Irawati, 2012). Company called that they met criteria if the company has more amount of capital than debt. Debt owned by the company related to the profits that will be obtained by the company. Capital structure as measured by Leverage is a variable for can find out how much the assets are financed by the company's debt. This leverage has an influence on the quality of earnings, leverage can affect the company because the company is financed with debt, the better the management of deep debt generate profits, the better the quality of earnings.

Profitability is a ratio to assess a company's ability to make a profit and to measure the effectiveness of a company's management. Liquidity is a financial ratio that measures the ability of a company to meet short-term obligations with assets smoothly (Sugiarto and Siagian, 2007). Commonly company used current ratio as the liquidity ratios indicator. Firm size is a company size that can be classified according to the log size. Therefore leverage, profitability, liqudity and firm size can relate to the quality of earnings itself.

2. Literature Review

Earnings quality is an important aspect in assessing the health of a company's financial statements. According to Yunita and Suprasto (2018) earnings quality are income that are reported in accordance with the facts that occur that can assist management in predicting future income. According to Schipper and Vincent (2003) reveals that earnings quality is the amount of income that can be consumed in one period by maintaining the company's ability at the beginning and end of the period. Leverage ratio is used to measure a company's ability to pay all its obligations, both short term and long term when the company is dissolved.

The profitability ratio is a ratio that aims to determine a company's ability to generate profits over a certain period (Septiana, 2019). In addition, it provides an overview of the level of effectiveness of management in carrying out its operations. The effectiveness of management can be seen from the profit generated on the company's sales and investment. Profitability is the ability of a company to earn profits through all existing capabilities and resources. The company's ability to earn profits shown through its profitability which can be represented from various ratios, including Return on Assets (ROA) (Harahap, 2018).

Investors expect a return on their fund, and this ratio shows the size of that possible return from an accounting perspective. A high value of ROA indicates that the company earns a high level of income. The level of profitability can be used as a basis for making investment decisions. The higher the level of company profitability, the more investors will maintain their shares in the company. Companies that can generate large, stable and continuous profits are signals or information that companies can provide to investors and creditors in making decisions so that they are in line with signaling theory. The effect of profitability on earnings quality in this signal theory is that information related to a high level of profitability is a signal that the company promises high profits so that investors respond quickly. Meanwhile, Firm size is a company size that can be classified according to the log size.

3. Materials and Methods

The type of research used is quantitative research. This research contain the data consists of numbers and statistical analysis. The research design used in this study is a descriptive research designed in accordance with the formulation of the problem in this study.

The samples used in this study were 14 companies obtained from companies in the hotel, restaurant and tourism sectors in the 2016-2020 period. The dependent variable in this study is earnings quality while the independent variable is leverage, profitability ratios, liquidity and firm size.

The data testing technique in this study uses multiple linear hypothesis testing techniques by first testing the classical assumptions. Classical assumption tests include multicollinearity, normality test, heteroscedasticity tests and autocorrelation tests. Hypothesis testing is done by conducting a T test.

The hypothesis in this study is:

H0 : Profitability has no effect on earnings quality.

H1 : Leverage affects earnings quality.

H2 : Profitability affects earnings quality.

H3 : Liquidity affects earnings quality.

H4 : Firm size affects earnings quality.

4. Results and Discussion

4.1. Descriptive Analysis

Variable debt to equity ratio (DER) has a minimum value of 0.04 and a maximum value of 2.54 with average 0.8770 of all sectors studied with standard deviation of 0.59035. The results of the research show the standard deviation value smaller than the average value which means that the distribution of the data means even. The company that has the largest average DER overall is PT. PTSP Tbk by 2.52% in 2017 and companies that have an average the lowest average value is PT. FAST Tbk of 0.04 in 2018 means the high leverage ratio indicates that the bigger the loan is, the more significant it is indicates that the company's financial condition is not healthy so it is risky bankrupt and vice versa.

The variable return on assets (ROA) has a minimum value of 1.01 and a maximum value of 15.16 with an average of 6.6687 and a standard deviation of 3.52749. The results of the study show that the standard deviation value is smaller than the average value, which means that the distribution of the data is even. The company that has the largest average overall ROA is PT. INPP Tbk of 15.16% in 2019 and the company that has the lowest average value is PT. PDES Tbk of 1.01% in 2017. This shows that the company is getting better because the level of profit generated by the company from managing its assets is getting bigger, with more efficient asset management, the confidence level of the investor will increase which in turn will increase companies' profits.

Variable current ratio (CR) has a minimum value of 2.50 and a maximum value of 41.70 with an average value the average is 14.0420 and the standard deviation is 7.06254. The results of the research show value the standard deviation is smaller than the mean value which means that the distribution of the data is even. Companies that have the largest average current ratio overall is PT. HOME Tbk by 41.70% in 2020 and companies that having the lowest average score is PT. PANR Tbk of 2.50% in 2016. The current ratio is a measurement of the company's current assets divided with the current liabilities.

Variable firm size has minimum value of 2.67 and maximum value of 25.42 with an average value of 10.6743 and a standard deviation of 5.22677. The results of the research show the standard value the deviation is smaller than the average value which means that the distribution of the data is even. Companies that have the largest average firm size overall are PT. PANR Tbk of 25.42 in 2020 and companies that have an average the lowest average value is PT. FAST Tbk of 2.67 in 2017. Firm size is the size of the company can be measured by the total assets or the amount of assets company by using the calculation of the logarithmic value of total assets. With result this means that in 2020 the bigger the company's firm size, the larger amount of company assets that can be used to support activities operational.

Earnings quality variable has a minimum value of 1.35 and a maximum value of 37.98 with an average value the average is 10.0929 and the standard deviation is 5.91251. The results of the research show value the standard deviation is smaller than the mean value which means that the data distribution is equally. Companies that have the largest average firm size overall is PT. SHID Tbk of 37.98% in 2017 and the company that owns the lowest average value is PT. PTSP Tbk of 1.35% in 2019. Earnings quality is a measure to match whether the profit generated is even to what was planned previously. The earnings quality is higher if approaching the initial plan or exceeding the target of the initial plan. With result this means that in 2020 the high quality of earnings will influence shareholders who will always invest their capital to company, because in the future the shareholders will benefit multiplied by the investment.

4.2. Assumption Analysis and Hypothetical Analysis

The normality test is used to test whether it is in the model regression, confounding or residual variables have a normal distribution (Ghozali, 2018). The Normality test in this study used the Kolmogorov-Smirnov statistical test. The significance level is above 0.05, so the data is normally distributed, whereas if the significance level is below 0.05 then the data is not normally distributed (Ghozali, 2018). Kolmogorov-Smirnov value of 0.167 with a significance level of 0.183 which means above 0.05, it can be concluded that the data in this study were normally distributed.

Multicollinearity test was carried out to examine whether the regression model found a correlation among independent variables (Ghozali, 2018). Good model regression should not occur correlation among independent variables. Multicollinearity can be known by using the calculation of the tolerance value and VIF. A regression model out of multicollinearity occurs if the value of tolerance above 0.10 or the same as a VIF value of less than 10 (Ghozali, 2018). The multicollinearity test results show that all the variables in this study have a tolerance value of >0.10 and all variables has a VIF value of < 10. Thus, can be concluded that this research is out of multicollinearity among independent variables in the regression model used.

Heteroscedasticity test aims to test whether the regression model occurs variance inequality from the residual one observation to another observation. All independent variables have sig value. ≥ 0.05. So, there are no significant independent variables statistically affecting the dependent variable. Thus, it can be concluded that in this regression model there is no heteroscedasticity in this research.

Autocorrelation testing the existance of linear regression model correlation between the interference error in the period t and the interference error in the t-1 period. If there is a correlation, we could call that the research contains autocorrelation problem. To see the presence of autocorrelation, the Durbin-Watson test (DW test) is used. Test Durbin-Watson is only used for first-order autocorrelation (first order auto correlation) and requires an intercept (constant) in the regression model and there are no more variables among the independent variables (Ghozali, 2018). The results of the regression analysis obtained a DW value of 1,896 with K = 4 and N = 70 with a DU value of 1.7351 and a DW value of smaller than 4-Du and the value of 4-Du is (4 - 1.7351 = 2.2649). It can be concluded that the variable debt to equity ratio (DER), return on assets (ROA), current ratio (CR), and firm size on earnings quality has no autocorrelation problem and can be proceed to the next level of test.

Based on the t-test obtained, it can be analyzed that the results of testing the hypothesis are the DER on earnings quality with a t-statistic of 2.121 > 1.99714 t-table with a significant value of 0.014, it can be concluded that DER (X1) influences earnings quality (Y). Thus, the first hypothesis in this study H1 was accepted. The results of hypothesis testing ROA on earnings quality with a t-statistic of 2.467 > 1.99714 t-table with a significant value of 0.003 can be concluded that ROA (X2) affects the quality of earnings (Y). Thus, the hypothesis both in this study H2 was accepted. In addition, it is known that the results of testing the Current Ratio (CR) hypothesis on earnings quality with a t-statistic of 0.265 < 1.99714 t-table with a significant value of 0.121, it can be concluded that the Current Ratio (CR) (X3) has no effect on quality Profit (Y). Thus, the third hypothesis in this study H3 was rejected. Finally, the results of testing the Firm Size hypothesis on Profit Quality with a t-statistic of 2.152 > 1.99714 t-table with a significant value of 0.031, it can be concluded that Firm Size (X4) influences Earnings Quality (Y). Thus, the fourth hypothesis in this study H4 is accepted.

5. Conclussion

This study aims to determine the effect of Leverage, Profitability, Liquidity and Firm Size in Hotel, Restaurant and Tourism Sub Sector companies listed on the Indonesia Stock Exchange for the period 2016 – 2020. Developments Leverage, Profitability, Liquidity and Firm Size in Hotel Sub Sector companies, Restaurants and Tourism listed on the Indonesia Stock Exchange for the 2016-2020 period experiencing fluctuations that tend to increase. Based on the results of the analysis of variables contained in this study, it can be concluded as follows : 1) Leverage has a positive effect on Earnings Quality in the Hotel, Restaurant and Tourism Sub Sector companies registered at Indonesia Stock Exchange period 2016 – 2020; 2) Profitability has a positive effect on Quality Profits in the hotel, restaurant and tourism sub-sector companies listed on the Indonesia Stock Exchange for the period 2016 – 2020; 3)Liquidity does not have a positive effect on quality Profits in the hotel, restaurant and tourism sub-sector companies listed on the Indonesia Stock Exchange for the period 2016 – 2020; 4) Firm Size has a positive effect on Earnings Quality in the Hotel, Restaurant and Tourism Sub Sector companies registered at Indonesia Stock Exchange period 2016 – 2020.

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