


## Influence of Profitability, Capital Structure, Liquidity and the Size of the Company to the Quality of Profits

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Article Info	Abstract
<p><b>Keywords:</b></p> <ul style="list-style-type: none"> <li>○ Profitability</li> <li>○ Struktur Modal,</li> <li>○ Liquidity and</li> <li>○ Company Size</li> <li>○ Quality Profit</li> </ul>	<p><b>Purpose</b> – penelitian ini membahas <i>Earnings Quality</i> dan faktor lainnya seperti <i>Profitabilitas</i>, <i>Struktur Modal</i>, <i>Likuiditas</i> dan <i>Ukuran Perusahaan</i> yang berfokus pada perusahaan sektor <i>basic material</i>. Penelitian ini menggunakan <i>Modified Jones model</i> sebagai pengukuran dari <i>Kualitas Laba</i>. This study aims to test and analyze the effect of Profitability, capital Structure, Liquidity and company Size on earnings Quality.</p>
Article History	
<p>Received: 11 – 01 - 2024 Accepted: 17 – 06 - 2024 Published: 28 – 02 - 2025</p>	<p><b>Design/methodology/approach</b> – The population in this study used basic material companies listed on the Indonesia Stock Exchange (IDX) in 2017-2022. This type of research is quantitative research. The data collection technique used in this study used the purposive sampling method and obtained a total of 12 companies. The analysis method used is multiple linear regression analysis using Eviews 9 software.</p>
 <p>Copyright: © 2025 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (<a href="https://creativecommons.org/licenses/by-sa/4.0/">https://creativecommons.org/licenses/by-sa/4.0/</a>)</p>	<p><b>Findings</b> – The results of this study indicate that the Profitability variabel has a negative and statictically significant effect on earnings quality, the Capital Structure variabel has a negative and statistically insignificant effect on earnings quality, the Profitability variabel has a positive and statistically insignificant effect on earnings quality, and the Firm Size variabel has a positive and statictically insignificant effect on earnings quality.</p>

## INTRODUCTION

Financial statements provide an overview of the performance and financial state of a company. Financial statements are used by companies to understand financial information about management's responsibilities to the state of the company. Relevant information is data that can assist investors in making informed decisions, ensuring that the outcome is as expected. Financial statements are a tool used to convey financial information of a company both to internal parties (management) and external parties (creditors, debtors, investors, governments, the community and other parties who have an interest in making investment decisions and become the basis for perturbagens in making decisions). Investors will be interested in investing their capital in companies that earn higher profits.

Due to the importance of profit information for users, companies are competing to increase profits. However, for certain parties, there are individuals who manipulate profits in financial statements and use unhealthy ways to achieve their individual goals related to

company profit information. This research examines companies in the raw materials sector, basic materials include companies that sell products and services used by other industries as raw materials to produce finished goods, such as companies that produce Chemicals, Construction Materials, Containers & Packaging, Aluminum, Copper and Gold Mining. (idx.co.id, 2023). The basic materials sector can be called one of the important and promising sectors in a country, because it provides the raw materials needed for other sectors. In Indonesia, the development of this industry is very rapid, both on a regional and national scale.

The Indonesia Stock Exchange (IDX) recorded a market capitalization of the Indonesia Exchange of IDR 9.79 trillion as of April 2023. The *basic materials* sector is the fourth largest contributor, beating the infrastructure sector by 9%. Meanwhile, the industrial sector is 4.8% (cnbcindonesia.com, 2023). This condition illustrates that investors have strong confidence in the profitability of companies in the *basic materials* sector. This is due to several factors such as good financial performance, strong demand for raw material products, and the perception that this sector has promising investment potential. An example of a profit quality scandal that has occurred is the Satyam Case Study on Enron in India which occurred on January 7, 2009 B. Ramalingga Raju, who at that time served as the Chairman of Satyam Computer Services Limited, admitted to accounting fraud. This case falsified more than 6000 invoices that were recorded, among other things, as income, income and receivables in the company's politically filed financial statements. Management creates additional fictitious bank reports (exaggerating balances and interest earned from fixed deposits held in various banks) to make it appear as if the company is investing fake income. Raju tried to cover up the scam by attempting a \$260 million bank loan for probadi use (1,000 properties, 6,000 acres of land, 40,000 square feet of residential plots, 90,000 square feet of real estate under construction.

Satyam shares stopped trading on July 4, 2013 in preparation for the merger. Prior to the merger, Satyam worked closely with the SEC to pay a fine of \$10 Million to settle a lawsuit in the United States. The other defendants are Ramalingga Raju (chairman of the board), Rama raju (president director), former chief financial officer, former vice president for accounting and auditing, former senior manager for treasury, former global internal auditor, former assistant manager for billing Here are the phenomena related to the quality of profits in basic materials companies.

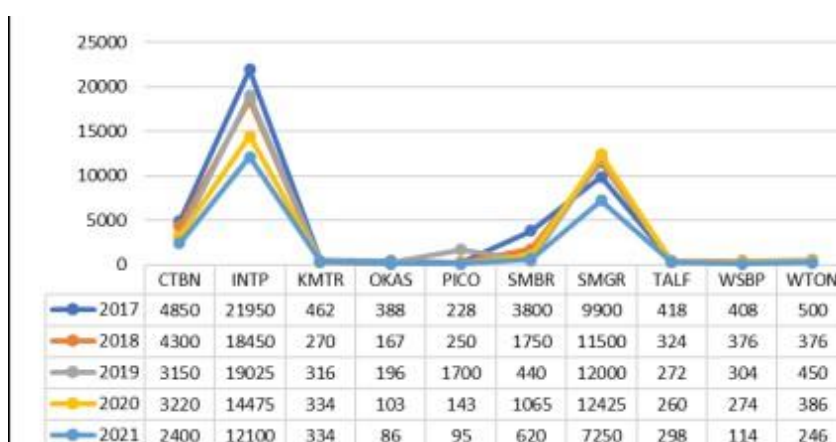


Figure 1. Stock price

Source : Data Processed by Researchers 2023

Based on the picture, it can be seen that the phenomenon that is observed in the stock price of companies in the raw materials sector has fluctuated. Stock price movements from 2017

to 2018 tended to decrease, but in 2018 to 2019 they decreased. In the chart above, it can be seen that the companies Indocement Tunggal Prakasa Tbk. (INTP), Ancora Indonesia Resources Tbk. (OKAS) and Semen Baturaja Tbk. (SMBR) have experienced a very drastic decline, the company Indocement Tunggal Perkasa Tbk. (INTP) in 2017 had a stock market price worth 21,950, but until 2021 it continued to decline to 12,100, Ancora Indonesia Resource Tbk. (OKAS) in 2017 had a stock market price worth 388 which decreased drastically in in 2021 to 86, Semen Baturaja Tbk. (SMBR) in 2017 had a stock market price worth 3800, which decreased drastically in 2021 to 620. Based on these research phenomena and data, it is important to conduct research in the *basic materials sector*.

Profit Quality can be influenced by several factors, namely, Profitability (Akmalia, 2022; Anas & Suryono, 2021; Charisma & Suryandari, 2021; Erawati & Hasanah, 2022; February 2023; K & Rahmawati, 2023; Kartika et al., 2023; Kurniawan & Suryaningsih, 2019; Luas et al., 2021; Magdalena & Trisnawati, 2022; Manalu et al., 2023; Maulita et al., 2022; Musyarofah & Arifin, 2021; Nainggolan et al., 2021; Restu P et al., 2022; Salma & Riska, 2019; Sari & Wiyanto, 2022; Syawaluddin et al., 2019; Zulfriza Yuliana & Ella Fauziah, 2022; Zulman & Abbas, 2022). Capital Structure (Aji et al., 2023; Akmalia, 2022; Angelica, 2022; Anggrainy & Priyadi, 2019; Erawati & Hasanah, 2022; February 2023; Fransiska, 2020; Hanifa & Malik, 2022; K & Rahmawati, 2023; Kartika et al., 2023; Luas et al., 2021; Magfiroh Anis & Widati Wahyu Listyorini, 2023; Maulita et al., 2022; Musyarofah & Arifin, 2021; Sons & Goddesses, 2023; Rahmah & Suyanto, 2020; Sari & Wiyanto, 2022; Situmorang, 2018; Syawaluddin et al., 2019; Wijaya, 2020; Yuli Astuti et al., 2022; Zulfriza Yuliana & Ella Fauziah, 2022; Zulman & Abbas, 2022). Liquidity (Aji et al., 2023; Akmalia, 2022; Angelica, 2022; Charisma & Suryandari, 2021; Erawati & Hasanah, 2022; Fransiska, 2020; Handayani & Darya, 2019; Kurniawan & Suryaningsih, 2019; Luas et al., 2021; Magdalena & Trisnawati, 2022; Magfiroh Anis & Widati Wahyu Listyorini, 2023; Manalu et al., 2023; Marnita, 2020; Musyarofah & Arifin, 2021; Nugroho & Radyasa, 2020; Sons & Goddesses, 2023; Rahmah & Suyanto, 2020; Restu P et al., 2022; Safitri & Afriyenti, 2020; Salma & Riska, 2019; Situmorang, 2018; Syawaluddin et al., 2019; Tita & Pohan, 2022b; Wardani & Anggrenita, 2022; Wijaya, 2020; Yoanita & Khairunnisa, 2021; Zulfriza Yuliana & Ella Fauziah, 2022; Zulman & Abbas, 2022). Company Size (Aji et al., 2023; Anggrainy & Priyadi, 2019; Charisma & Suryandari, 2021; Fransiska, 2020; Hanifa & Malik, 2022; K & Rahmawati, 2023; Kurniawan & Suryaningsih, 2019; Magfiroh Anis & Widati Wahyu Listyorini, 2023; Marpaung, 2019; Musyarofah & Arifin, 2021; Nugroho & Radyasa, 2020; Rahmah & Suyanto, 2020; Safitri & Afriyenti, 2020; Sari & Wiyanto, 2022; Syawaluddin et al., 2019; Wardani & Anggrenita, 2022; Wijaya, 2020; Yoanita & Khairunnisa, 2021; Zulfriza Yuliana & Ella Fauziah, 2022; Zulman & Abbas, 2022).

In research (Maulita et al., 2022); (Magdalena & Trisnawati, 2022); (Luas et al., 2021); (Akmalia, 2022) states that Profitability has a positive effect on Profit Quality. Profitability can show how profitable an organization is over time. In addition to measuring the company's ability to generate profits over a certain period, profitability also aims to measure the level of management effectiveness in carrying out the company's operations. This is not in line with the results of the study (Manalu et al., 2023); (Nainggolan et al., 2021); (Kartika et al., 2023); (Anas & Suryono, 2021); (Erawati & Hasanah, 2022); (Zulfriza Yuliana & Ella Fauziah, 2022) which states that Profitability has a negative effect and has no effect on the Quality of Profit. As for the research (Putra & Dewi, 2023); (February, 2023); (Magfiroh Anis & Widati Wahyu Listyorini, 2023); (Situmorang, 2018); (Syawaluddin et al., 2019); (K & Rahmawati, 2023) which

states that Capital Structure has a negative effect on Profit Quality. Capital Structure refers to the comparison of the company's financial components, including long-term borrowing and the company's internal financial resources. A company's financial risk tends to increase when the company's debt level is high. This is not in line with the results of research conducted by (Yuli Astuti et al., 2022); (Octavian, 2020); (Rahmah & Suyanto, 2020); (Zulman & Abbas, 2022) which states that Capital Structure has a positive effect on Profit Quality. In research (Tita & Pohan, 2022b); (Wardani & Anggrenita, 2022); (Restu P et al., 2022); (Kurniawan & Suryaningsih, 2019); (Marnita, 2020); (Salma & Riska, 2019) states that Liquidity has a positive effect on the quality of profits. Liquidity describes a company's ability to meet short-term obligations, where if the company is billed, the company will be able to meet the debt that is due. This research is not in line with the results (Fransiska, 2020); (Handayani & Darya, 2019); (Charisma & Suryandari, 2021); (Salma & Riska, 2019) which states that Liquidity has a negative effect and has no effect on Profit Quality. Company size is a scale that can be classified as the size of the company based on total assets, number of employees, stock market value, sales logs, capitalization and others. Large companies usually often maintain the stability and condition of the company, because the company is larger in size, the company's business continuity in increasing financial capacity will also be greater so that the company does not cheat to describe its profits. In this study, it has similarities with research (Safitri & Afriyenti, 2020); (Anggrainy & Priyadi, 2019); (Sari & Wiyanto, 2022); (Musyarofah & Arifin, 2021); (Yoanita & Khairunnisa, 2021); (Aji et al., 2023) states that Company Size has a positive effect on Profit Quality. The differences in this study with the research (Marpaung, 2019); (Wijaya, 2020); (Nugroho & Radyasa, 2020); (Hanifa & Malik, 2022) which states that Company Size has a negative effect and has no effect on Profit Quality.

Therefore, the author is motivated to conduct research on the types of companies in the *basic materials* sector and to find out whether *Profitability, Capital Structure, Liquidity and Company Size* can affect the *Quality of Profits*, especially in *basic materials* companies in the 2017-2023 period. Therefore, the author is interested in conducting a study titled "The Influence of Profitability, Capital Structure, Liquidity and Company Size on Profit Quality in Basic Materials Sector Companies Listed on the Indonesia Stock Exchange in 2017-2023"

## LITERATURE REVIEW

### Agency Theory

*Agency theory* was popularized by Jensen and Meckling in 1976. (Jensen & Meckling, 1976) defines agency theory as a relationship between one or more principals that involves another person (*agent*) to perform a number of services on their behalf that involves delegating some decision-making authority to the agent. In this case, *the principal* in question is the investor or shareholder while the agent is the management.

### Profitability

According to Syamsudin 2007:136 in the book (Syamsudin 2007:136 in the book Setiawan, n.d.) explains that ROA is a measurement of a company's overall ability to generate profits with the total amount of assets available in the company.



## Capital Structure

According (Busneti et al., 2023) *Debt to equity* describes the relative portion between equity and debt used to finance a company's assets.

## Liquidity

According to (Hanif, SE, M.SA, Ak, Ca, n.d.) *Current ratio* is the company's ability to meet short- term financial commitments as shown by the availability of cash through the sale of goods and the disbursement of receivables to pay debts and other short-term obligations.

## Company Size

According to (Hery, 2017:25 in the book Toni & Anggara, .d.) Company Size Budget is an important variable that will explain the selection of company size accounting methods can be classified as one of the elements of the work environment that will affect management perception later.

## Hypothesis Development

### The Effect of Profitability on the Quality of Profits

Profitability using the ROA calculation is also related to the quality of profit where a company that has a high level of profitability will attract investors and creditors that the company has the ability to generate high and sustainable profits. The high profitability that the company has can have a great opportunity to generate profits in the future so that a company will have good quality as well. This hypothesis is in line with previous research conducted by (Akmalia, 2022; Luas et al., 2021; Magdalena & Trisnawati, 2022; Maulita et al., 2022) which states that Profitability has a positive effect on the quality of profits.

**H<sub>1</sub> : Profitability has a positive effect on the Quality of Profit**

### The Influence of Capital Structure on Profit Quality

Capital Structure does not affect the quality of profits, perhaps because the capital structure is more focused on maximizing funding so that the company's operational processes run properly in order to achieve the set targets and earn profits. A company that has good capabilities in terms of funding and financing does not guarantee that the company has good profit quality. This hypothesis is in line with previous research conducted by (Febrijanti, 2023; K & Rahmawati, 2023; Magfiroh Anis & Widati Wahyu Listyorini, 2023; Sons & Goddesses, 2023; Situmorang, 2018; Syawaluddin et al., 2019) which states that Capital Structure has a negative effect on the quality of profit.

**H<sub>2</sub> : Capital Structure has a negative effect on Profit Quality**

### The Effect of Liquidity on Profit Quality

Liquidity affects the quality of profits, because the more able the company is to meet its short- term obligations, the more liquid a company is. A liquid company can be interpreted as the company is able to manage its company well, and the profits generated will also be of quality, in other words the profits generated can reflect the real state of the company and can be used for decision-making. Companies with good liquidity are considered to be able to manage their assets so that they are able to obtain maximum profits so that they do not cause agency conflicts because the profits received are as much as possible so that the desires between agents and principals can be aligned. This hypothesis is in line with previous research

conducted by (Kurniawan & Suryaningsih, 2019; Marnita, 2020; Restu P et al., 2022; Salma & Riska, 2019; Tita & Pohan, 2022a; Wardani & Anggrenita, 2022) which states that Liquidity has a positive effect on the quality of profit.

**H<sub>3</sub>** : Profitability has a positive effect on the Quality of Profit.

### The Effect of Company Size on the Quality of Profits

The size of the company affects the quality of profits, because a company that has a large total assets (the size of a large company) will be careful in compiling financial statements, so that the profit in the financial statements is in accordance with the actual situation. So the profit in companies that have higher assets will be of higher quality as well.

This hypothesis is in line with previous research conducted by (Aji et al., 2023; Anggrainy & Priyadi, 2019; Musyarofah & Arifin, 2021; Safitri & Afriyenti, 2020; Sari & Wiyanto, 2022; Yoanita & Khairunnisa, 2021) which states that Company Size has a positive effect on the quality of profits.

**H<sub>4</sub>** : Company Size has a positive effect on Profit Quality.

## METHODOLOGY

This study aims to examine, analyze and find out the possibility of a relationship regarding the influence of independent variables *Profitability, Capital Structure, Liquidity and Company Size*. Against the dependent variable of *Profit Quality*. The research paradigm used in this study is positivism as a method that is systematically arranged using deductive logic from the beginning of hypothesis formulation. The type of data used in this study is using quantitative data. Quantitative methodologies generally measure consumer behavior, knowledge, opinions, or attitudes. The methodology answers questions related to how much, how often, how much, when, and who (Cooper & Schindler, 2005). As for the research strategy using case studies, where this case study is aimed at investigating and studying events or phenomena about something, and for the unit of analysis using organizations with minimal research involvement. The sampling design in this study is the Sampling Size using purposive sampling. For the research background, the researcher did not find any interventions in this study (*noncontrived*). For the implementation time, panel data is used which is a combination of *cross-section* and *time series* using power analysis, namely hypothesis testing.

**Table 1. Alat ukur dan sumber pengukuran variabel**

Variable	Measuring Instruments	Source
Quality Profit	$EQ = \frac{\text{Cash Flow Operation}}{\text{Net Income}}$	(Magdalena & Trisnawati, 2022)
Profitability	$ROA = \frac{\text{Income before tax}}{\text{Total assets}}$	(K & Rahmawati, 2023)
Capital Structure	$DER = \frac{\text{Equity}}{\text{Liabilities}}$	(French, 2020)
Liquidity	$CR = \frac{\text{Assets}}{\text{Current Liabilities}}$	(Kurniawan & Suryaningsih, 2019)
Company Size	Log size	(Hanifa & Malik, 2022)

This study used *purposive sampling* techniques and a population of 64 companies and there was a sample withdrawal into 12 company samples.

**Table 2. Sample Selection**

Number of companies in the <i>basic materials</i> sector listed on (IDX)		64 Companies
Criterion		
Criterion 1	Companies in the <i>basic materials</i> sector that are not listed ( <i>unlisted</i> ) on IDX in 2017-2022	(34 Companies)
	Companies in the <i>basic materials</i> sector listed on IDX in 2017-2022	30 Companies
Criterion 2	Companies in the <i>basic materials</i> sector that have financial statements for 6 consecutive years from 2017- 2022	29 Companies
	Companies in the <i>basic materials</i> sector that have not had financial statements for 6 consecutive years from 2017-2022	(34 Companies)
Criterion 3	Companies that suffered losses in 2017-2022	19 Companies
	Companies that had no losses in 2017-2022	12 Companies
Criterion 4	The company's financial statements do not use rupiah (IDR)	(12 Companies)
	The company's financial statements use the rupiah currency (IDR)	27 Companies
Company Sample		12 Companies

## RESULT

### Descriptive Analysis

From the results of the study, it can be known the minimum, maximum, average and standard deviation values of each variable used in the observation period of 2017-2022.

**Table 3. Research Sample**

	EQ	PROF	SM	P.	UP
Mean	1.406949	0.049214	0.740026	6.362898	27.56619
Median	0.945600	0.045350	0.528450	2.147250	27.44590
Maximum	10.77720	0.141100	2.083400	206.8642	30.99360
Minimum	-2.941300	0.001900	0.097500	0.655900	23.11950
Std. Dev.	2.002071	0.031940	0.622030	24.24764	2.021714
Skewness	2.110994	0.796950	0.611686	8.017671	-0.151276
Kurtosis	9.742160	3.241076	1.894847	66.77758	2.287217
Jarque-Bera	189.8457	7.795910	8.154004	12974.13	1.798790
Probability	0.000000	0.020283	0.016958	0.000000	0.406816
Sum	101.3003	3.543400	53.28190	458.1286	1984.765
Sum Sq. Dev.	284.5884	0.072430	27.47142	41744.30	290.2002
Observations	72	72	72	72	72

The table above shows that there are 72 observations (*unbalanced*) for the 2017-2022 research year period. The descriptive explanation of statistics in the data above means:

Earnings *quality* has a value range between the lowest -2.94 to 10.77 with an average value of 1.406. The *basic materials* company with the highest profit quality value is PT Semen Batu Raja (SMBR) in 2020. Profitability has a value range between the lowest of -0.001 to 0.045 with an average value of 0.049. The *basic materials* company with the highest

profitability value is PT Ekadharma Internasional (EKAD) in 2017. Capital structure has a value range between the lowest of 0.975 to 208.34 with an average value of 0.740. The *basic materials company with the highest* capital structure value is PT Lautan Luas (LTLS) in 2017. Liquidity has a value range between the lowest of 0.65 to 206.86 with an average value of 6.3628. The *basic materials company with the highest* capital structure value is PT Duta Pertiwi Nusantara (DPNS) in 2020. The *firm size* has a value range between the lowest of 23.11 to 30.99 with an average value of 27.56. The *basic materials company with the highest firm size value* is PT Indocement Tunggal Prakarsa (INTP) 2017.

### Panel Data Regression Model Selection Chow Test

**Table 4. Chow Test**

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.727850	(11,56)	0.0907
Cross-section Chi-square	21.039920	11	0.0330

Source : Processed data (2023)

Based on the results of the Chow Test using Eviews9, it is stated that *the Probability Cross Section F* is 0.0907 which is more than the value of the significance level ( $\alpha=0.05$ ). This means that the best model used is *Common Effect* (OLS). Therefore, a *Langrange Multiplier Test* is needed in order to choose the best model between *the Common Effect Model* and *the Random Effect Model*.

### Lagrange Multiplier

**Table 5. Lagrange Multiplier Test**

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	1.569997 (0.2102)	7.776942 (0.0053)	9.346939 (0.0022)
Honda	-1.252995 --	2.788717 (0.0026)	1.085919 (0.1388)
King-Wu	-1.252995 --	2.788717 (0.0026)	1.611836 (0.0535)
Standardized Honda	-0.657832 --	3.146586 (0.0008)	-1.684175 --
Standardized King-Wu	-0.657832 --	3.146586 (0.0008)	-0.936781 --
Gourierious, et al.*	-- --	-- --	-- 7.776942 ( $< 0.01$ )

\*Mixed chi-square asymptotic critical values:

1%	7.289
5%	4.321
10%	2.952

Source : Processed data (2023)



Based on the results of the Lagrange Multiplier Test, the significance value for *Both* is 0.002 where this result is less than the significance level value ( $\alpha = 0.05$ ). In this case, it means that the best model used is *the Random Effect Model*.

## Hypothesis

### Multiple Regression Analysis

The results of the panel data regression estimation using *the Random Effect Model* (REM) show the results of the test with panel data regression, so from these results the following model equations are obtained.

$$EQ = 1.14 - 16.74585 \cdot \text{Prof} + 0.528 \cdot \text{SM} + 0.003 \cdot \text{LK} + 0.024 \cdot \text{UP} + \varepsilon$$

### Koefisien Determinasi

**Tabel 6. Uji Simultan**

R-squared	0.127596	Mean dependent var	1.406949
Adjusted R-squared	0.075512	S.D. dependent var	2.002071
S.E. of regression	1.924997	Sum squared resid	248.2762
F-statistic	2.449810	Durbin-Watson stat	1.963050
Prob(F-statistic)	0.054479		
Unweighted Statistics			
R-squared	0.127596	Mean dependent var	1.406949
Sum squared resid	248.2762	Durbin-Watson stat	1.963050

Sumber : Data yang diolah (2023)

Based on table 6 *R-Square* shows a value of 0.127596 which means that 0.13% of the variables Profitability, Capital Structure, Liquidity and Company Size can explain the variable Quality of Profit.

### T Test (Partial Test)

**Table 7. Partial Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.140939	3.088450	0.369421	0.7130
Prof	-16.74585	7.883339	-2.124208	0.0373
SM	0.528038	0.411670	1.282674	0.2040
P.	0.003376	0.009281	0.363737	0.7172
UP	0.024592	0.119543	0.205714	0.8376

Prof = Profitability, SM = Capital Structure, LK = Liquidity, UP = Company Size.

Source: Processed data (2023)

The results of the test using *the Random Effect Model* (REM) can be concluded as follows: The independent variable Profitability with a probability value of  $0.0373/2 = 0.01865$ , is insignificant at Level  $\alpha = 0.05$ , and judging from the  $T > \text{calculation}$  it was found that the  $T_{\text{calc}} < T_{\text{table}}$  can be  $-2.124208 < 1.812$  which means that the hypothesis is not accepted, namely profitability has a negative effect on the Quality of Profit and statistically it was found that profitability is not significant to the quality of the ProfitQuality Profit. The independent variable of Capital Structure with a probability value of  $0.2040/2 = 0.102$ , is insignificant at Level  $\alpha = 0.05$ , and judging from the  $T > \text{calculation}$ , it was found that the  $T_{\text{calc}} < T_{\text{table}}$  can be

1.282674 < 1.812 which means that the hypothesis is not accepted, namely that Capital Structure has a positive effect on the Quality of Profit and statistically it was found that the Capital Structure is not significant to the Quality of Profits. The independent variable Liquidity with a probability value of  $0.7172/2 = 0.3586$ , is not significant at Rate  $\alpha = 0.05$ , and judging from the  $T >$  calculation, it was found that the  $T_h < T$  table can be  $0.363737 < 1.812$  which means that the hypothesis is not accepted, namely Liquidity has a positive effect on Profit Quality and statistically it is found that Liquidity is not significant to Quality Profit. The independent variable of Company Size with a probability value of  $0.8376/2 = 0.4188$  is insignificant at Level  $\alpha = 0.05$ , and judging from the  $T >$  calculation it was found that the  $T_h < T$  table can be  $0.205714 < 1.812$  which means that the hypothesis is not accepted, namely that the Company Size has a positive effect on the Quality of Profit and statistically it was found that the Company Size is not significant to the Quality of Profits.

## DISCUSSION

### Profitability Versus Profit Quality

Profitability describes the effectiveness of a company in making a profit. The higher the profitability, the higher the profitability, the higher the company, the better the performance ability in generating Quality Profits, or it will give confidence to the shareholders that the company has good performance in generating profits. On the other hand, if profitability is low, the company will have a bad reputation in the eyes of investors so that the company will make efforts to make the level of profitability high. This makes the company manipulate profits, causing the profits obtained by the company to be invisible and the quality of the company's profits to decrease. So the first hypothesis was declared rejected. So, if a company has a high level of profitability but poor performance ability, the quality of profits generated by a company will be low. Likewise, low profitability does not necessarily mean that the quality of the profits produced is also low. Because it is possible that a company with a low level of profitability can produce high quality profits. Therefore, it can be concluded that the higher the level of profitability, the lower the quality of profit. This result is in accordance with the findings (Manalu et al., 2023), (Maulita et al., 2022) but this result is also contrary to the findings that indicate that profitability results have a negative and significant effect on profit quality (Faisal & Sari, 2024).

### Capital Structure Against Profit Quality

Capital Structure plays an important role in optimizing the company's performance and quality. And companies need a good structure and capital objectives. The calculation of this ratio aims to find out how much part of the company's capital, so the amount of debt should not exceed its own capital so that the fixed expenses are not too high (Faisal et al., 2024). This shows that companies that have a lot of debt are not necessarily able to use the debt well to fund the company's activities so that they are not able to generate optimal profits. So it could make the company's debt even bigger because it is not able to manage debt to generate profits. This result is in accordance with the findings (Oktavianti, 2020), (Putra & Dewi, 2023) but this result is also contrary to the findings that state that the results of capital structure have a positive effect on the quality of profits.

## **Likuiditas Terhadap kualitas Laba**

Liquidity is the ability of a company to meet its short-term obligations by using assets that can be converted into cash without incurring significant losses in the value of the asset. Companies with high levels of liquidity tend to show lower risk in terms of finance. Creditors and investors tend to be more interested and confident in investing in companies with good liquidity, as well as a positive market response to published earnings that can confirm the market's confidence in the company's financial performance and ability to survive in the long term. This result is in accordance with the findings (Sari & Wiyanto, 2022), (Marpaung, 2019) but this result is also contrary to the findings that state that the results of capital structure have a positive effect on the quality of profit.

## **Company Size Against Profit Quality**

The large size of the company indicates that the company is developing so that investors will respond positively and the quality of profits increases. Investors will be more interested in large corporate companies, because they have profits that grow over a long period of time. A company with a large total assets indicates that it has reached the maturity stage. In this stage, the company has better prospects for a relatively long period of time, and is predicted to have a relatively more stable financial performance. This result is in accordance with the findings (Oktavianti, 2020), (Putra & Dewi, 2023) but this result is also contrary to the findings that state that the results of capital structure have a positive effect on the quality of profits.

## **CONCLUSION**

Based on the results of the research conducted on the test of the influence of Profitability, Capital Structure, Liquidity and Company Size on Profit Quality, the conclusion of this study is that Profitability has a negative and statistically significant effect on Profit Quality. This can be seen from the negative sign on the coefficient in the REM table as well as the significance value in the probability below 0.05. From this study, it was also found that  $H_0$  was rejected or the hypothesis was not accepted judging from the  $T$  calculation  $> T$  table. Which means that the higher the profitability, the higher the profitability, the company does not necessarily have good performance ability in producing Profit Quality, because companies that have high Profitability focus on creating long-term value rather than having to do Profit Quality which has short-term value. Capital Structure has a positive and statistically insignificant effect on Profit Quality. This can be seen from the negative sign on the coefficient in the REM table as well as an insignificant value in the probability above 0.05. From this study, it was also found that  $H_0$  is not accepted or the hypothesis is not accepted judging from the  $T$  calculation  $> T$  table. That the level of debt used to finance the company's total assets has no influence on the quality of the profits generated by the company. Liquidity has a positive and statistically insignificant effect on Profit Quality. This can be seen from the positive sign on the coefficient in the REM table as well as there is an insignificant value at a probability above 0.05. From this study, it was also found that  $H_a$  is accepted or the hypothesis is accepted judging from the  $T$  calculation  $> T$  table. So a high current ratio shows that the company is able to pay off short-term obligations using its current assets, so that the company's management is unable to do profit management to improve the quality of the company's profit, this can be concluded that the higher the current ratio, the higher the current ratio, causing the profits produced by a

company to be of high quality. Company Size has a positive and statistically insignificant effect on Profit Quality. This can be seen from the positive sign on the coefficient in the REM table as well as there is an insignificant value at a probability above 0.05. From this study, it was also found that  $H_a$  is accepted or the hypothesis is accepted from the T calculation  $> T$  table. Then a large company can make more profits than a small company. So, the bigger the company, the profits generated by the company will be sustainable. The sustainable profit shows that the company has produced quality profits. This means that the larger the company, the better the quality of the profits it makes.

## LIMITATIONS AND RECOMMENDATIONS

This research was carried out with several research limitations that can affect the results of the research, namely the type of data in this study is secondary data in the form of numbers in financial statements that have been published by the company. In addition, not all companies publish financial statements, so research samples are needed. The desired data is difficult to obtain or there are restrictions on access to the data.

Advice for future researchers:

1. Researchers can then consider other variables that have the potential to affect the quality of profits, such as *earnings response, coefficient, and real activities manipulation*.
2. Compare the *basic materials* sector with other sectors such as the banking or property sector, to find out whether these variables have a negative or positive effect on the quality of profits between these sectors.
3. The researcher can then make moderation variables and mediation variables from the relationship between *Profitability, Capital Structure, Liquidity* and *Company Size*, which have a role as moderation and mediation.

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