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Factors Affecting the Quality of Profit of Registered Financial Sector Companies on the Indonesia Stock Exchange (2017-2019)

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Abstract

Banking companies must have good management to achieve the maximum level of profitability, namely by managing the assets under their control to create income, the profitability of a bank describes the ability of the bank concerned to earn a profit during a certain period as well as measuring the performance of a bank. The purpose of this study is to determine the effect of Return on Assets, capital structure, Investment Opportunity Set and Company Size on Earning Quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Quantitative research methods are in the form of numbers and analyzed statistically and are causal. The population is 61 companies in the financial sector. The sample is 25 companies with data on 75 financial statements. The result is that Return on Assets has an effect on the quality of earnings in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Capital Structure, Investment Opportunity Set, and Company Size have no effect on earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Return On Assets, Capital Structure and Investment Opportunity Set affect earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

Keywords: Return on Assets, Capital Structure, Investment Opportunity Set, Firm Size and Earnings Quality.

1. INTRODUCTION

Companies usually have specific goals to be achieved to meet the interests of their members, the company's financial performance is a description of the financial condition of a company that is influenced by management decisions and is a complex matter and is analyzed using financial analysis tools, the results are about good or bad. the level of financial health in a certain period can be known. Therefore, good management is needed to produce financial performance that can provide a maximum level of financial health so that it can benefit the company and quality profits. One company that plays an important role in building the economy of a country is a financial sector company, namely a company that does business in the financial sector whose activities are related to financial problems. For this reason, banking companies must have good management to achieve the maximum level of profitability, namely by managing the assets under their control to create income. The profitability of a bank describes the bank's ability to earn a profit during a certain period and measures the performance of a bank.

The success of the bank is influenced by the ability to identify public demand for financial services, the ability to provide services efficiently, and the ability to sell using competitive prices whose activities are to collect funds in the form of demand deposits, savings deposits, and other deposits from parties with excess money to be channeled back to the bank. people who need funds by selling financial services on time can increase the welfare of the people and can generate quality income. The existence of a capital structure is also very necessary in a company by determining the proportion of the right capital structure that can provide a maximum level of financial health to support the success of a company. A factor that affects earnings quality is the investment opportunity set (IOS) because IOS is used as the basis for determining the classification of the company's future growth. The size of large companies cannot guarantee good audit quality. Audit quality is assessed from the perspective of the recipient and the provider of audit services.

2. LITERATURE REVIEW

Theory of the Effect of Profitability on Earnings Quality

According to Putra and Wirawati (2013), stated that "ROA is a ratio that measures the comparison between net income after tax to total assets owned by the company. According to Fahmi (2013: 137), states that "Return on Assets (ROA) is a ratio that sees the extent to which investment or total assets that have been invested can provide an expected return on profits.

Theory of the Effect of Capital Structure on Earnings Quality

Nadirsyah and Muharram (2015), said if “Capital structure is the most important thing in a company, this is because capital is the beginning of the running of a business.” Gahani and Wayan (2017), state that the capital structure is known through the level of leverage.

Theory of the Effect of Investment Opportunity Set on Earnings Quality

According to Wulansari (2013), "the investment opportunity set has a positive effect on earnings quality." In line with a study conducted by Novianti (2012), the investment opportunity set has a positive effect on earnings quality.

Theory of the Effect of Firm Size on Earnings Quality

Company size is the size of a company that can be classified based on a number of ways, including the size of income, total assets, and total equity (Agustina and Gede, 2017). The size of the company is related to the quality of earnings because the bigger the company, the higher the business continuity of a company to improve financial performance so that the company does not need to manipulate profits (Gahani and Wayan, 2017).

3. RESEARCH METHODOLOGY

This research is explanatory. According to Sugiyono (2012:21), explanatory research is research that explains the position of the variables raised and the relationship between one variable and another. The population and samples in this study were 75 companies.

4. RESULT AND DISCUSSION

Classic Assumption Test

Normality Test

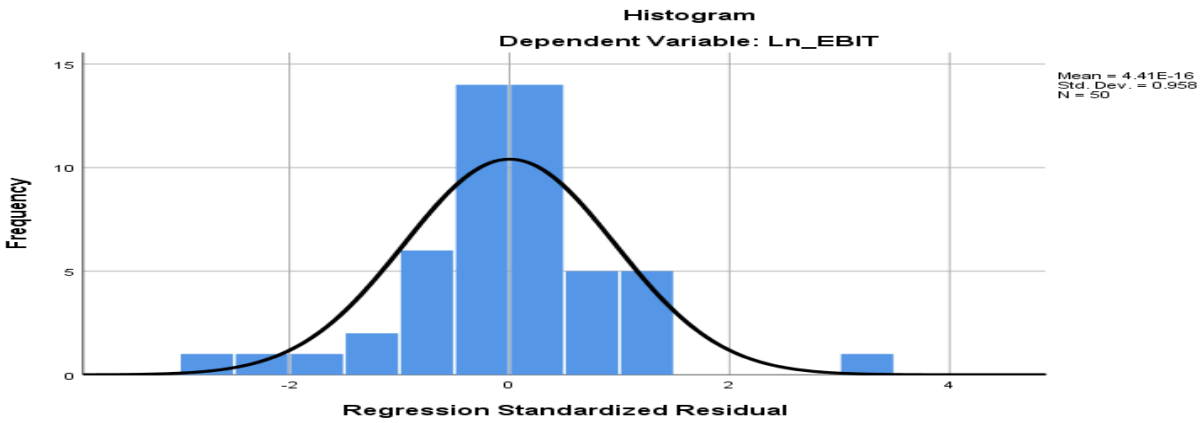

Figure 1. Figure 1 Histogram After Transformation

Figure 1 the histogram is not skewed to the right and left in the shape of an inverted bell indicating normal.

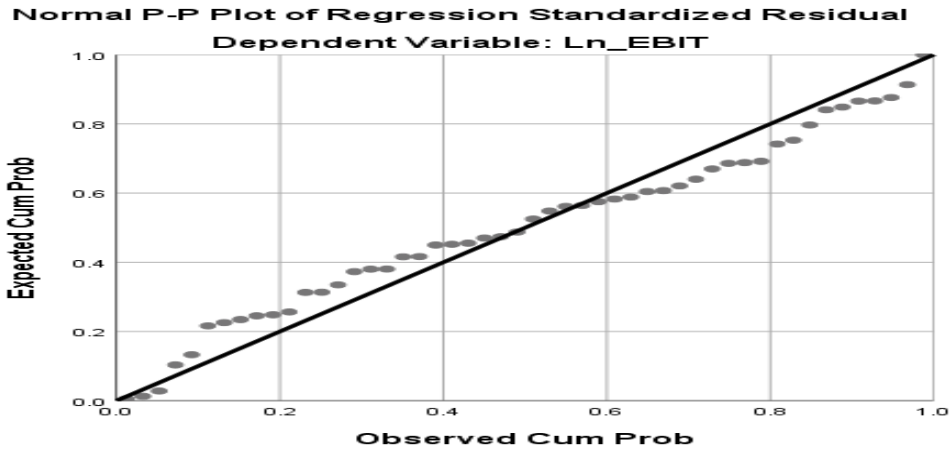

Figure 2. Normal Probability Plot After Transformation

Figure 2 Normal P-Plot with the points approaching and following the diagonal line, the data is normally distributed.

Table 1 One-Sample Kolmogorov-Smirnov Test After Transformation

		Unstandardized Residual
N		50
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.00804263
Most Extreme Differences	Absolute	.106
	Positive	.101
	Negative	-.106
Test Statistic		.106
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

d. This is a lower bound of the true significance.

Table 1 Kolmogorov normality with sig 0.200>0.05 meets the normal requirements.

Multicollinearity Test

Table 2 Multicollinearity After Transformation

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Ln_ROA	.541	1.849
	Ln_DER	.463	2.160
	Ln_MVBVA	.692	1.444
	Ln_FirmSize	.552	1.811

Table 2 ROA, Leverage, MVBVA and company size with VIF < 10 and tolerance >0.1 indicates avoiding multicollinearity symptoms.

Autocorrelation Test

Table 3 Autocorrelation Test Results After Transformation

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.455[a]	.207	.137	1.05189	2.049
a. Predictors: (Constant), Ln_FirmSize, Ln_ROA, Ln_MVBVA, Ln_DER					
b. Dependent Variable: Ln_EBIT					

Table 3 du sample 50 = 1.7214 and dw = 2.049. du<dw<4-du, 1.7214 < 2.049 < 4-1.7214, 1.7214 < 2.049 < 2.2786 proven that the data is free from autocorrelation symptoms.

Heteroscedasticity Test

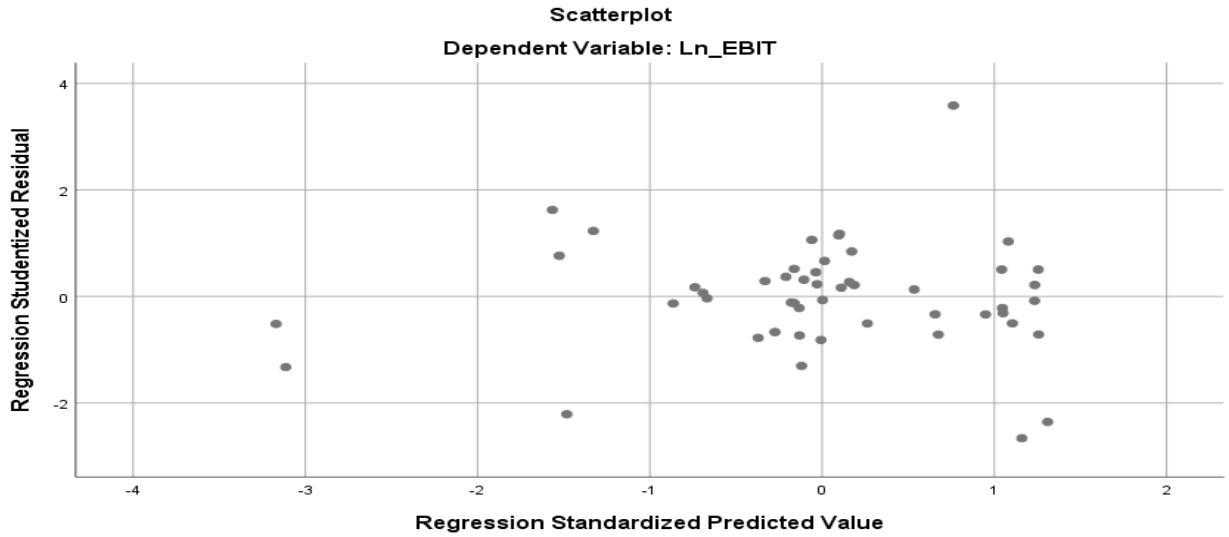

Figure 3. Heteroscedasticity After Transformation

Figure 3 the data is randomly distributed and the absence of a pattern indicates the data is free from heteroscedasticity symptoms.

Table 4. Glaciers After Transformation

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	-4.349	6.969		-.624	.536
Ln_ROA	-.020	.204	-.019	-.100	.920
Ln_DER	-.293	.275	-.217	-1.064	.293
Ln_MVBVA	-1.669	.734	-.379	-2.275	.028
Ln_FirmSize	1.601	2.073	.144	.772	.444
a. Dependent Variable: Abs_ut1					

Table 4 ROA, Leverage and firm size with sig > 0.05 indicating heteroscedasticity free. MVBVA with sig < 0.05 indicates heteroscedasticity occurs.

Table 5. White Test Results.

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.978[a]	.957	.953	30.39716
a. Predictors: (Constant), FirmSize2, DER2, MVBVA2, ROA2				
b. Dependent Variable: U2T				

Based on Table 5, it states that the value of R Square is 0.957 with the calculation of c2 below:

$$c2 = n \times \text{value of R Square}$$
$$= 50 \times 0.957$$
$$= 47.85$$
$$c2 = 47.85 > 34.76$$

Based on the results of the white test shows c2 > c2 table then 47.85> 34.76 does not occur heteroscedasticity.

Multiple Linear Regression

Table 6. Multiple Linear Regression Analysis

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-6.340	10.521		-.603	.550
	Ln_ROA	-.933	.308	-.547	-3.030	.004
	Ln_DER	-.386	.416	-.181	-.927	.359
	Ln_MVBVA	-.032	1.108	-.005	-.029	.977
	Ln_FirmSize	.415	3.129	.024	.133	.895
a. Dependent Variable: Ln_EBIT						

Ln_EBIT = -6.340 - 0.933 Ln_ROA - 0.386 Ln_Leverage - 0.032 Ln_MVBVA + 0.415 Ln_FirmSize. The constant value is -6.340 units, meaning that if the Return On Assets, capital

structure, Investment Opportunity Set and company size are zero, the earnings quality is -6.340 units. The coefficient of Return on Assets is -0.933 units, meaning that the other independent variables are 0 and Return On Assets is negative, meaning that there is an increase in Return on Assets per unit which reduces earnings quality by 0.933. The capital structure coefficient is 0.386 units, meaning that if the other independent variables are zero and the capital structure is negative, it means that an increase in the capital structure per unit reduces the earnings quality by 0.386. The Investment Opportunity Set coefficient is -0.032 units, meaning that if the other independent variables are zero and the Investment Opportunity Set is negative, it means that an increase in the Investment Opportunity Set per unit can reduce earnings quality by 0.050. The coefficient of company size is 0.415 units, meaning that if the other independent variables are zero and the company size is negative, it means that an increase in the size of the company per unit can increase the quality of earnings by 0.415.

Coefficient of Determination

Table 7 Coefficient of Determination

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.455[a]	.207	.137	1.05189
a. Predictors: (Constant), Ln_FirmSize, Ln_ROA, Ln_MVBVA, Ln_DER				
b. Dependent Variable: Ln_EBIT				

Table 7 adjusted R Square 0.137 or 13.7% affect earnings quality with the remaining 86.3% influenced by other variables not examined.

Simultaneous Hypothesis Testing (F Test)

Table 8. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.011	4	3.253	2.940	.031[b]
	Residual	49.791	45	1.106		
	Total	62.802	49			
a. Dependent Variable: Ln_EBIT						
b. Predictors: (Constant), Ln_FirmSize, Ln_ROA, Ln_MVBVA, Ln_DER						

F table (nk-1), (50-5 = 45) = 2.58, Fcount > Ftable, 2.940 > 2.58 and sig 0.031 < 0.05 then H0 is rejected and H1 is accepted meaning Return on Assets, Capital Structure, Investment The opportunity set and company size affect the quality of earnings in financial sector companies listed on the IDX for the 2017-2019 period.

Partial Hypothesis Testing (T Test)

Table 9. Test Statistics T

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-6.340	10.521		-.603	.550
	Ln_ROA	-.933	.308	-.547	-3.030	.004
	Ln_DER	-.386	.416	-.181	-.927	.359
	Ln_MVBVA	-.032	1.108	-.005	-.029	.977
	Ln_UkuranPerusahaan	.415	3.129	.024	.133	.895
a. Dependent Variable: Ln_EBIT						

The test results are as follows. Value of t table Return on Assets (n-k-1), (50-4-1=45) = 2.014; t count value (-3.030) > t table value (-2.014) and significance value (0.004) < 0.05, meaning that Return on Assets has an effect on earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Value of Capital Structure t table (n-k-1), (50-4-1=45) = 2.014; t statistic value (-0.927) < t table value (-2.014) and significance value (0.359) > 0.05, meaning that Capital Structure has no effect on earnings quality in financial sector companies listed on the IDX for the 2017-2019 period. Value of Investment Opportunity Set ttable (n-k-1), (50-4-1=45) = 2.014; t statistic value (-0.029) < t table value (-2.014) and the significance value (0.977) > 0.05 means that the Investment Opportunity Set has no effect on the quality of earnings in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Value of firm size t table (n-k-1), (50-4-1=45) = 2.014; t statistic value (0.133) < t table value (2.014) and significance value (0.895) > 0.05, meaning that firm size has no effect on earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

Discussion

Effect of Profitability on Earning Quality

The results of the study, namely Return on Assets affect the quality of earnings in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. This result is in line with the study conducted by Putra and Wirawati (2013), which states that the higher the ROA level, the better the earnings quality, because the resulting return increases.

Effect of Capital Structure on Earnings Quality

The results of this study are that Capital Structure does not affect the quality of earnings in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. This result is not in line with Gahani and Wayan (2017), proving that capital structure is measured through the level of leverage. In order to measure the amount of company assets funded by company debt, companies that have high debt can result in greater financial risk. This risk of default will result in the costs that must be borne by the company in order to resolve the matter, thereby reducing the company's profits.

The Effect of Investment Opportunity Set on Earning Quality

The result of this study is that the Investment Opportunity Set has no effect on earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. This result is not in line with Novianti (2012) which proves that the investment opportunity set has a positive effect on earnings quality. The higher the IOS Set level in a company will make the company have greater development opportunities, as a result profit will continue to grow, from continued growth it will attract investors to invest in the company.

The Effect of Firm Size on Earnings Quality

The result of this study is that the size of the company has no effect on the earnings quality of financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The above results are not in line with Susanti (2017: 88) the larger the size of the company, the more transparent and accountable the company increases the quality of its financial statements.

5. CONCLUSION

The conclusions that can be drawn by researchers are Return on Assets affects the quality of earnings in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Capital structure has no effect on earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The Investment Opportunity Set has no effect on the earnings quality of financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Company size has no effect on earnings quality in financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Return on Assets, capital structure, Investment Opportunity Set and company size affect the earnings quality of financial sector companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

After conducting the research, the researcher can provide several useful suggestions, including for the management, it is necessary to improve the quality of the company's earnings by using the assets owned by the company. Management should exercise control over funding from debt, which can lead to a decrease in earnings quality. The management should increase the Investment Opportunity Set as measured by profit before tax to increase the quality of earnings.

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