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Analysis of the Influence of Return on Assets (ROA) and Company Size on Earnings Quality

(Empirical Study on Food and Beverage Companies on the Indonesia Stock Exchange 2018-2020 Period)

Monica Luthfiani[1)], Mujiyati[2)]
[1]*Faculty of Economics and Business, University of Muhammadiyah Surakarta,*
[2]*Faculty of Economics and Business, University of Muhammadiyah Surakarta, Indonesia.*

Abstract: *This study was to determine the effect of Return on Assets and Company Size on Earning Quality (Case Study of food and beverage company on the Indonesia Stock Exchange) for the 2018-2020 period. The population used in this study are all companies engaged in the food and beverage sector which are listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period.Hypothesis testing in this study uses multiple regression analysis. The results shows that Return on Assets has a partial positive effect on Earning Quality, with a significance value of 0.029. Company size does not have a partial positive effect on Earning Quality, with a significance of 0.264. Meanwhile, simultaneously, the Return on Assets and Company Size variables affect Earning Quality, with a significance value of 0.022.*

Keywords: Company Size, Earning Quality, Return on Assets, Multiple Regression Analysis

I. INTRODUCTION

Earnings information is very important to be used as a basis for shareholders and investors in making decisions. Earnings information is one of the indicators used to measure company performance. Published earnings can be responded to, this indicates a market reaction to earnings information. If earnings information contains reliable information, investors will react to the earnings announcement. This shows that the earnings information has quality. Earnings quality indicates the ability of earnings information to provide a market response(Ginting, 2017). Earnings quality is earnings that can reflect sustainable earnings in the future, which is determined by accruals and cash components and reflects the actual financial performance of the company. Earnings quality is also an indicator of the quality of financial information. High quality financial information comes from high quality financial reports(Alarussi & Alhaderi, 2018).

Related to signal theory, company profits can be a good signal for interested parties, especially investors as a basis for decision making. A positive signal in the form of earnings information that is free from manipulation of financial statements will increase confidence in management performance. The greater the total assets owned by the company, the greater the size of the company, so that the larger the size of the company it will produce high production income that meets the requirements. This is reinforced by the results of previous studies, he also found that firm size has a significant positive effect on earnings quality(Fachrurrozie & Purnamasari, 2020).

However, looking at the case of Bank Lippo, which has high total assets, shows that large-scale companies with total assets of more than 10 billion still practice earnings management. So that the quality of profits remains in doubt (Mariska & Suprapta, 2021). Firm size, leverage ratio, does not contribute to earnings quality. This lesson assumes that company management prefers to carry out earnings management to maintain the value of the company. In addition, large companies make it possible to generate greater profits in the future(Hasanuddin *et al*., 2021).In addition to company size, earnings quality is also influenced by profitability, in this study what is meant by profitability is ROA (Return On Assets).Return On Assets describes the company's ability to generate profits. This ability depends on the level of sales achieved, investment or investment in assets, and absorption of personal capital. A low level of

profitability indicates a low quality of earnings and vice versa if the level of profitability is high, it can be said that the company has a good ability to generate profits(Soly & Wijaya, 2018).

Many researchshows that ROA (Return On Assets) has a positive effect on earnings quality(Fachrurrozie & Purnamasari, 2020; Kurniawan & Suryaningsih, 2019; Warrad, 2017). However, another findingstates that ROA (Return On Assets) has no effect on earnings quality(Ginting, 2017; Kusmuriyanto & Agustina, 2014; Mariska & Suprapta, 2021; Setiawan, 2017; R. Wulandari, 2021). Findings about firm size have a positive effect on earnings quality(Ananda & Ningsih, 2016; Fachrurrozie & Purnamasari, 2020), andSetiawan (2017)states that firm size has a negative effect on earnings quality.

Based on previous research, it was found that the results were not the same so that researchers were interested in re-examining the research by replicating Mariska & Suprapta's (2021) research with the title "The Effect of Profitability, Firm Size, and Investment Opportunity Set (IOS) on the Earnings Quality". The object of this research is a company engaged in the food and beverage sector which is listed on the Indonesia Stock Exchange (IDX), in this study using the latest time period, namely 2018-2020. This study adds the independent variables of profitability and firm size. The title of this research is "Analysis of the Effect of Return on Assets (ROA) and Company Size on Earnings Quality" in companies engaged in the food and beverage sector listed on the Indonesia Stock Exchange (IDX) in 2018-2020.

II. LITERATURE REVIEW

Jensen dan Meckling (1976) argues that agency theory is a working relationship between the principal (owner) and agent (manager). As agents, managers are morally responsible with the aim of maximizing the principal's profits, but on the other hand managers have an interest in maximizing their personal welfare as well. Therefore, it is very likely that the agent does not always act in the best interests of the principal and thus creates an agency problem. The agency problem is a problem created due to a conflict of interest between the principal and agent so that it can affect the quality of reported earnings(Ananda & Ningsih, 2016).

In the context of signaling theory that cannot be separated from the existence of information asymmetry, the government tries to give a good signal to the people. In the framework of the information asymmetry that occurs between the principal and the agent, it is suggested that the company's signal is a very crucial thing that must be considered by the company in order to maintain economic resources for the company (Ross (1973).Watt & Zimmerman (1986)explained that in this theory, companies provide the best possible information so that government authorities can give a positive response to the company in the political terms that the company has transferred their assets through taxes, levies, and other social responsibilities, this is what makes managers motivated to do corporate governance disclosure(Handayani & Rachadi, 2009).

Hodge (2003) defines earnings quality as "the extent to which net income is reported on the income statement diers from "true" (unbiased and accurate earnings)". Or it can be interpreted as the extent to which net income has been reported in the profit and loss section, not truth or income that is inaccurate or biased(Setiawan, 2017).Earnings quality is a measure that describes or reflects the quality of financial statements that can be used as a reference and reliable or not. Quality earnings must be in accordance with the criteria of relevance and faithfully representative, or can represent the actual situation(Mariska & Suprapta, 2021).

Profitability is a ratio to assess the ability of a company to earn profits and to measure how much the level of effectiveness of management in a company. Therefore, profitability can be related to the quality of the profit itself(Nadzifah & Sriyana, 2020). Return on assets (ROA) shows the effectiveness of a company in managing assets both from the company's personal capital or from loan capital, investors will see how effective a company is in managing its assets. The higher the level of ROA, it will have an effect on the volume of stock sales, meaning that the high and low ROA will affect investors' interest in conducting investigations so that it will affect the sales volume of the company's shares(Setiawan, 2017).

III. METHODOLOGY RESEARCH

This type of research is quantitative research. This research is a comparative causal research, namely research with the characteristics of the problem in the form of cause and effect between two or more variables. In this study, the cause-and-effect relationship to be examined is the effect of return on assets (ROA) and firm size on earnings quality.The population in this study are food and beverage sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. The data used in this study is secondary data in the form of financial statements of companies

engaged in the food and beverage sector obtained from the publications of the Indonesia Stock Exchange (IDX) with the link address www.idx.co.id and the official website of each company.

3.1. Variables Definition

3.1.1. Earnings Quality (Y)

Refers to the definition of Penman (2013) where quality earnings are earnings that can reflect sustainable earnings in the future.The calculation formula is as follows(Nanang & Tanusdjaja, 2019):

Quality of Income Ratio=(Cash Flow from Operation)/(Net Income)……...(Formula 1)

3.1.2. Return on Assets (X1)

ROA is the company's ability to generate profits from the total assets owned by the company. Measurement of return on assets (ROA) according to Kasmir (2016: 199). The calculation formula is as follows(Mariska & Suprapta, 2021):

ROA=(Profit After Tax)/(Total Assets) x 100%)……...(Formula 2)

3.1.3. Company Size (X2)

Company size describes the size of a company indicated by total assets, total sales, average total sales, and average total assets. The calculation formula is as follows(Alarussi & Alhaderi, 2018):

Firm Size=Ln Total Assets……...……..……...(Formula 3)

IV. RESULTS

Hypothesis testing in this study uses multiple regression analysis with classical assumption test, *t* test, *F* test, and coefficient of determination test (R^2).

4.1. Classical Assumption Test

4.1.1. Normality Test

Table1. Normality Test

Asymp Sig.	Criteria	Explanation
0,236	> 0,05	Data is Normal

Asymp value. Sig. (2-tailed) in the Kolmogorov-Smirnov regression model of 0.236 or greater than the 0.05 significance level. So, it can be concluded that the data used in this study is normal.

4.1.2. Multicollinearity Test

Table2.Multicollinearity Test

Variable	Tolerance	VIF	Explanation
Return On Assets	0,933	1,072	NoMulticollinearity
Company Size	0,933	1,072	NoMulticollinearity

The value of Variance Inflation Factor (VIF) for both variables is below 10.00. Then, the Tolerance value of the two independent variables shows a number greater than 0.100. Based on these tests, it can be concluded that there is no multicollinearity problem between independent variables in the regression model.

4.1.3. Heteroscedasticity Test

Table3.Heteroscedasticity Test

Variable	Sig.	Explanation
Return On Assets	0,297	No Heteroscedasticity
Company Size	0,320	No Heteroscedasticity

The significance value of the two variables is 0.297 (Return On Assets), 0.320 (Company Size), which indicates that the significance of the two variables is greater than (0.05), so it can be concluded that there is no heteroscedasticity problem in the regression model in this study.

4.1.4. Autocorrelation Test

Table4.Autocorrelation Test

DW	dL	dU	4-dL	4-dU	Explanation
1,745	1,5395	1,6640	2,4605	2,336	No Autocorrelation

Durbin-Watson value is 1.745, while from the Durbin-Watson table with a significance of 0.05, the number of samples is 66, and the number of independent variables is 2 variables (k = 2), so that the dL value is 1.5395 and dU is 1, 7285. The dl data is 1.5941 so that 4-dL is 2.4059, and du is 1.6640, so 4-dU is 2.4605. Because the Durbin-Watson value is 1.6680 < 1.745 < 2.336, the Durbin-Watson value is in the region of accepting Ho which proves the existence of a negative autocorrelation. Based on these tests, it can be concluded that the regression model in this study does not occur autocorrelation.

4.2. Hypothesis Test

Table5.Multiple Linear Regression Test

Variable	Beta	Sig.	Explanation
Constant	-320,869	0,353	
Return On Assets	0,048	0,029	Significant Positive
Company Size	0,136	0,264	Not Significant

$$\boldsymbol{EQ = -320,869 + 0,048ROA + 0,136SIZE + e}$$

4.2.1. t Test

Output Results The t test is used to determine whether the independent variable regression model (Return on Assets and Firm Size) partially has a significant effect on the dependent variable (earnings quality). The results of partial hypothesis testing are as follows:

A significance value of 0.029 < 0.05, this value indicates that the significance value (0.029) < value (0.05) then H1 is accepted, meaning that there is an effect of the Return on Assets (ROA) variable on the Earnings Quality (EQ) variable.

A significance value of 0.264 > 0.05 which indicates that the significance value (0.264) > (0.05) then H2 is rejected, meaning that there is no influence of the Firm Size (SIZE) variable on the Earning Quality (EQ) variable.

4.2.2. F Test

The F test is used to determine whether the independent variables (Return on Assets and Firm Size) together have a significant effect on the dependent variable (Quality of Earnings). Based on the F table that is sought at = 0.05 (5%). The results of the F test can be seen based on the ANOVA output from the results of multiple linear analysis, below:

Table6.F Test Results

	F	Sig. F
Regression	4,078	0,022

The results of the F test output for the regression equation in this study obtained the value of Sig. F of 0.022. Thus, the simultaneous hypothesis testing criteria by comparing the two values shows that the value of Sig. F is smaller than the value of (0.05), with a value of 0.022 <0.05, then H_o is rejected. This can be interpreted that the variables Return on Assets and Company Size together have a positive effect on earnings quality.

4.2.3. Coefficient of Determination Test (R^2).

Table7.F Test Results

	R2	Adjusted R2
Model Summary	0,043	0,013

Adjusted R^2 value of 0.013. This shows that the percentage of the influence of the independent variable (Return on Assets and firm size) on the dependent variable (earnings quality) is 1.3%. Besides that, it can also be interpreted that the two independent variables are able to explain the earnings quality variable by 1.3%. While the remaining 98.7% is influenced or explained by other variables that are not included in this research model.

Effect of Return on Assets on Earnings Quality

Based on the results of partial regression analysis, the significance value of Return on Assets is 0.029 < 0.05, this value indicates that the significance value (0.029) < the value of (0.05) then H1 is accepted, meaning that there is an influence of the Return on Assets (ROA) variable. to the Earnings Quality (EQ) variable. This study is in line with the results of research conducted by Wulandari *et al.* (2021)by stating that there is no effect of Return on Assets (ROA) on

earnings quality in Service Companies Listed on the Indonesia Stock Exchange and strengthened by research conducted by Fachrurrozie & Purnamasari (2020)which states the same thing in manufacturing companies Secondary Sector on IDX 2010-2015.

Return on Assets (ROA) is a company's financial ratios related to profit. Return on Assets serves as a measure of the company's effectiveness in generating profits and utilizing its assets. Thus, the greater the ROA, the greater the level of profit achieved by the company. So it can be said that the company also has good earnings quality (Kusmuriyanto & Agustina, 2014). Company profitability shows the effectiveness of a company in managing assets, both from the company's personal capital or from loan capital, investors will see how effective a company is in managing its assets. The higher the level of ROA will have an effect on the volume of stock sales, meaning that the high and low ROA will affect the interest of investors in conducting investigations so that it will affect the sales volume of the company's shares, thus a high ROA can indicate that the earnings quality of a company is also good.

Effect of Company Size on Earnings Quality

Based on the results of partial regression analysis, a significance value of 0.264 > 0.05 indicates that the significance value (0.264) > (0.05) then H2 is rejected, meaning that there is no influence of the Firm Size (SIZE) variable on the Earnings Quality (EQ) variable).

Research from Hasanuddin *et al*. (2021)which explains that firm size does not contribute to earnings quality. This result is reinforced by research conducted by Soly & Wijaya (2018), which has found that company size has no effect on earnings quality in manufacturing companies on the IDX in 2010-2017. Ananda & Ningsih (2016), stated that the larger the size of a company , then the company's going concern will be higher in improving financial performance which causes the company not to tend to practice earnings management, so that the quality of a company's earnings can be trusted. However, the results of this study are different from the theory.

Firm size is considered to have a positive relationship to earnings quality, because the larger the size of a company, the higher the business continuity of the company in improving its financial performance. However, the size of a company is not always directly proportional to the quality of good management. Even if a large company has poor management, things can happen that make a company's earnings quality poor. Such as the practice of profit manipulation to produce quality profits. In fact, large companies can freely use their large business revenues to cooperate with partner audit firms to do things that are not justified. So that the size of a company is not related to the quality of earnings.

V. CONCLUSION

This study proves that Return on Assets has a positive effect on Earning Quality in food and beverage companies during the 2018-2020 period. Meanwhile, company size did not affect the earnings quality of food and beverage companies during the 2018-2020 period.

This study has several limitations such as the company that became the sample of this study only as many as 26 companies engaged in the food and beverage sector on the Indonesia Stock Exchange, so the results of the study cannot be generalized to all companies. This study only uses secondary data published by related companies. Primary data such as questionnaires and interviews that were used to determine the condition of the company directly were not used in this study because in addition to the limitations of time, effort, and funds as well as the difficulty of accessing company data which is confidential and can only be reached by the company's internal parties. And this study only uses variables from financial data in analyzing the effect on Earnings Quality, while in non-financial terms it is not used. So that the results of this study cannot fully reflect the factors that affect Earning Quality in companies engaged in the food and beverage sector on the Indonesia Stock Exchange.

Acknowledgements

For investors who will invest in a company, they should pay attention to the quality of profits owned by the target company. This can be seen by looking at the Return on Assets (ROA) value. If a company has a high Return on Assets value, it is certain that the company has good earnings quality when compared to other companies with low Return on Assets.

For further research, it is hoped that there will be an increase in the observation period, the number of samples, as well as increasing other independent variables that have not been included in this study so that the results of the research can be generalized more broadly. This can be done by adding research variables such as other financial ratios related to earnings quality.

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