JOURNAL OF ACCOUNTING AND AUDITING
https://ojs.azzukhrufcendikia.or.id/index.php/aaaj
VOL. 3. No. 1 ; October (2026)
E-ISSN: 3090-2401

Financial Characteristics and Operating Cash-Flow-Based Earnings Quality: A Panel Data Study of Indonesian Raw Goods Firms

[1*]Adissya Hawalia Husni, [2]Elprina Sarah Azahra, [3]Maliki Heru Santosa, [4]Junainah Jaidi
[1*, 3]Sekolah Tinggi Ilmu Ekonomi Tri Bhakti, Bekasi, Indonesia
[2]Universitas Balikpapan, Balikpapan, Indonesia
[4]Universiti Malaysia Sabah, Sabah, Malaysia
Email: [2]elprinasarah12@gmail.com, [3]m4hesa@yahoo.com, [4]nenjaidi@ums.edu.my
Correspondence author email: [1*]adissyaahawalia14@gmail.com

Article Info

Keywords:
- *Profitability*
- *Leverage*
- *Company Size*
- *Quality Profit*

Article History

Received: 08 – 09 – 2026
Revised: 29 – 09 – 2026
Accepted: 18 – 10 – 2026
Published: 27 – 10 – 2026

DOI

https://doi.org/10.65440/jaa.v3i1.261

Copyright: © 2026by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (https://creativecommons.org/licenses/by-sa/4.0/)

Abstract

Purpose – *This study aims to analyze the influence of Profitability, Leverage, and Company Size on Profit Quality in raw goods sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period.*

Design/Methodology/Approach – *This study uses a quantitative approach with secondary data. The research sample consisted of 46 companies in the raw goods sector that were selected using the purposive sampling method during the 2022–2024 period, resulting in 138 observations. Data analysis was carried out using panel data regression with Random Effect Model (REM) using the EViews 9 application.*

Findings – *The results of the study show that Profitability has a negative and significant effect on the Quality Profit. Leverage has a positive and significant effect on the Quality Profit. Meanwhile, Company Size has a negative but not significant effect on Profit Quality.*

Limitations/Implications of Research – *This study is limited by incomplete data availability, the relatively low Adjusted R-Squared of 10.6%, and the use of operating cash flow to net income as a single measure of Profit Quality. Future research may consider additional variables, longer observation periods, and alternative measures of Profit Quality. Despite these limitations, the findings provide practical implications for investors and other users of financial information by highlighting the importance of considering financial characteristics and operating cash flow when assessing Profit Quality in the Raw Goods sector.*

JEL : *G30, G32, M41*

INTRODUCTION

Profit Quality is an important indicator in assessing the reliability of financial information because it shows the extent to which the reported profit is able to reflect the company's actual economic conditions. Quality profits can provide a more accurate picture of

the company's performance and help investors and users of financial statements in making decisions. However, large profits do not always accurately reflect the economic condition of the company if the profit is not sustainable and is not supported by adequate cash flow.

This study focuses on companies in the Raw Goods sector because the sector has economic and operational characteristics that may influence the relationship between financial characteristics and Profit Quality. Companies in this sector are exposed to fluctuations in commodity prices, production costs, demand, and market conditions, which can affect reported profitability and operating cash flows. These conditions are particularly relevant to Profit Quality because reported earnings may change without being accompanied by proportional changes in operating cash flows. In addition, the Raw Goods sector consists of various subsectors with different operational and financial characteristics, which may result in differences in the way companies manage profitability, debt, assets, and reported earnings. Therefore, examining Profitability, Leverage, and Company Size in this sector provides sector-specific empirical evidence that may complement findings from broader manufacturing or cross-industry studies.

Based on the results of data processing, the average Profit Quality in 12 subsectors of the Raw Goods sector during the 2022–2024 period shows differences and fluctuations. The Basic Chemical Goods subsector has an average Profit Quality of 1.79 in 2022, decreasing to 1.60 in 2023, then increasing to 2.78 in 2024. Meanwhile, the Construction Materials subsector showed a relatively high and stable value, namely 2.36 in 2022, 2.58 in 2023, and 2.39 in 2024. More notable fluctuations occurred in the Copper subsector, with an average Profit Quality of 2.40 in 2022, then dropped to -2.57 in 2023 and increased again to 0.32 in 2024. In addition, the Containers & Packaging subsector increased from 0.83 in 2022 to 4.84 in 2023, then decreased to 1.88 in 2024. This condition shows that the improvement in Profit Quality in one period cannot necessarily be maintained in the next period.

Differences are also seen in other subsectors. Special Chemical Goods increased from 0.10 to 1.64, then dropped to 1.16. Other Forest Products increased from 1.16 to 1.90, then dropped to 0.71. Meanwhile, Other Metals & Minerals went from 1.99 to 2.05, then dropped to 1.20. The Paper Subsector was at 0.00 during the 2022–2024 period, while Wood decreased from 0.92 to 0.48 and 0.22. This shows that each subsector does not have the same pattern of changes in Profit Quality.These differences and fluctuations indicate that the company's reported profit does not necessarily have the same level of Profit Quality. This condition shows the importance of identifying factors that can affect the Quality of Profits. In this study, the factors analyzed are Profitability, Leverage, and Company Size.

Previous research has also shown inconsistent results. Magdalena and Trisnawati (2022) and Lusiani and Khafid (2022) found that Profitability had a positive and significant effect on Profit Quality, while Febrijianti (2023) found a negative influence. In the Leverage variable, Aprilianti et al. (2024) found that there was an effect on Profit Quality, while Bomantara (2024), Desyana et al. (2023), Azizah and Asrori (2022), and Anggraeni and Widati (2022) found that Leverage had no effect. Meanwhile, Maulita and Dewi (2023) and Charisma (2021) found that Company Size did not have a significant effect, while Yoanita and Khairunnisa (2021) found a significant positive influence.

The differences in previous findings may be related to differences in research objects, observation periods, operational characteristics, and the measurement of Profit Quality.

Companies operating in different sectors may face different levels of commodity exposure, financing requirements, operating cycles, and external monitoring, which can influence the relationship between financial characteristics and Profit Quality. Differences in economic conditions across observation periods may also contribute to variations in empirical findings. Therefore, the inconsistency of previous results should not only be viewed as a statistical difference but also as an indication that the relationship between Profitability, Leverage, Company Size, and Profit Quality may be context-dependent. This study addresses this gap by focusing specifically on companies in the Raw Goods sector listed on the Indonesia Stock Exchange during 2022–2024. Based on these phenomena and research gaps, this study aims to analyze the influence of Profitability, Leverage, and Company Size on Profit Quality in Raw Goods sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period.

THEORETICAL FRAMEWORK

Agency Theory

Agency Theory was put forward by Jensen and Meckling (1976) which explains the relationship between the owner of the company (principal) and management (agent). In this relationship, the owner gives the management authority to manage the company in the hope of improving the company's performance. However, differences in interest between principals and agents can cause agency conflicts that affect the quality of financial information presented. In the context of this study, Agency Theory is used to explain the relationship between Profitability, Leverage, and Company Size to Profit Quality. High profitability does not necessarily indicate good profit quality if profits are unstable and sustainable, while Leverage and Company Size can affect the supervision, managerial pressure, and reliability of profit information presented by the company.

Signaling Theory

The Signaling Theory was proposed by Spence (1973) who explained that companies convey information to external parties as a signal about the company's condition and prospects. In this study, financial statements are a form of signal used by investors in assessing the company's performance and profit quality. Profitability can provide signals about the company's ability to generate profits, Leverage provides information about the company's funding conditions and liabilities, while Company Size can provide an overview of the company's scale and level of supervision over the company. Therefore, information about these three variables can affect external parties' assessment of the company's Profit Quality.

Profitability

Profitability is the company's ability to earn profits from sales activities (Lestari, 2021). Profitability also describes a company's ability to generate profits from its operational activities and is used to assess the effectiveness of management in managing company resources to obtain profits. The better the company's ability to manage its resources, the greater the company's ability to generate profits. According to Brigham and Houston (2018), profitability can be measured using Return on Assets (ROA), which is a ratio used to measure a company’s ability to generate profits from all assets owned. ROA compares net profit to the company’s

total assets, so it can show how effectively the assets the company owns are used to generate profits. In this study, profitability is measured using ROA by comparing net profit with total assets.

Leverage

Leverage is a financial ratio that shows the extent to which a company uses debt as a source of financing in carrying out its operational activities. According to Hartati (2024), leverage shows the extent to which a company uses debt as a source of financing in operational activities. The use of debt can help companies obtain sources of funds to support business activities, but at the same time create obligations that must be fulfilled by the company. According to Nurlalela (2024), leverage is related to the use of loan funds that have a fixed expense to increase the company's profit potential. The use of debt can provide benefits if the funds are able to generate greater profits than the costs that the company must bear. However, the greater use of debt can also increase financial risks as companies have an obligation to pay principal and interest expenses. Mendrofa (2024) explained that Leverage is the use of assets and sources of funds by companies that aim to increase profits. However, the use of leverage can also reduce profits if the company is unable to manage the funding source effectively. According to Gitman and Zutter (2015), leverage is related to the use of fixed costs in company activities that can increase the rate of return and risk faced by the company. In this study, Leverage is measured using the Debt to Equity Ratio (DER), which is a comparison between total liabilities and shareholder equity. The DER shows how much a company's debt is compared to the capital it has. The higher the DER, the greater the proportion of funding derived from debt and the greater the company's obligations to creditors.

Company Size

Company Size is an overview of the size of a company that can be seen from various indicators, such as total assets, total sales, and market capitalization. Companies that have a larger size generally have more complex resources, operational activities, and organizational structures than companies that are smaller in size. The size of the company can also reflect the company's ability to carry out operational activities and manage the resources it has. According to Brigham and Houston (2018), the size of a company can be seen from the amount of assets owned by the company. The larger the assets owned, the larger the scale of the company. Companies with larger sizes also tend to receive higher attention and supervision from internal and external parties. This condition can encourage companies to present financial information that is more transparent and trustworthy. In this study, the Company Size is measured using the natural logarithm (Ln) of total assets. The use of natural logarithms aims to simplify the total value of assets that have a large enough range so that the data becomes easier to analyze. Thus, the greater the natural logarithmic value of the total assets, the larger the size of the company.

Quality Profit

Profit Quality is the ability of the company's reported profit to reflect the company's actual economic condition and provide relevant information for users of financial statements. According to Dechow et al. (2010), Profit Quality can be seen based on the extent to which

profit can provide information about the company's performance and help predict the company's performance in the next period. Quality profits reflect more sustainable profits and can be a better basis for financial statement users to make decisions. Profit quality is also related to the relationship between reported profits and the cash flow generated by the company. Profits supported by adequate operating cash flow tend to show better quality because the profit is more reflective of the company's economic condition and not only from the accrual component. Therefore, the comparison between operating cash flow and net profit can be used to see the quality of the company's profit. In this study, Profit Quality is measured using Quality of Income, which is a comparison between operating cash flow and net profit. The ratio is used to see the extent to which reported earnings are supported by the company's operating cash flow. The higher the Quality of Income value, the greater the company's profit ability supported by operating cash flow so as to show better Profit Quality. In this study, the ratio of operating cash flow to net income is used as a cash-based measure of Profit Quality because it indicates the extent to which reported earnings are supported by cash generated from operating activities. However, this measure represents one dimension of Profit Quality and does not capture all aspects of earnings quality, such as accrual-based characteristics or earnings persistence. Therefore, the interpretation of Profit Quality in this study is limited to its cash-based dimension.

Hypothesis development

The Effect of Profitability on the Quality of Profits

Under the framework of agency theory (Jensen & Meckling, 1976), information asymmetry between opportunistic managers and principals creates strong incentives to manipulate financial reports. When capital markets and equity holders utilize high profitability thresholds as the primary benchmark for managerial success and compensation, management faces substantial pressure to sustain this positive trajectory. To satisfy market expectations, managers are motivated to exercise discretionary accruals, such as accelerating revenue recognition or deferring operating expenses. This opportunistic accounting behavior inflates net income figures without a corresponding influx of actual operating cash flow. Because earnings quality in this empirical model is captured via the ratio of operating cash flow to net income, the expanding divergence between accrual accounting earnings and realized operating cash flows inevitably erodes the earnings quality metric. This operational reasoning aligns with empirical findings by Warianto and Rusiti (2014) as well as Agustina and Trisnawati (2020), who demonstrate that elevated profitability corresponds with compromised earnings quality due to aggressive earnings smoothing and discretionary accrual management. Accordingly, the first hypothesis is posited as follows:
H_1: Profitability has a positive effect on the quality of profits.

The Effect of Leverage on Profit Quality

From the standpoint of the creditor monitoring hypothesis within agency theory (Smith & Warner, 1979; Jensen, 1986), debt acts as an external disciplinary governance mechanism that curtails opportunistic executive discretion. Higher leverage elevates default exposure and financial distress risks, prompting institutional lenders and banks to execute rigorous

monitoring over the borrowing firm. Creditors actively ensure debt covenant compliance, emphasizing the generation of liquid operational cash rather than mere paper profits to secure scheduled principal and interest disbursements. This intensive scrutiny constrains managerial flexibility to deploy aggressive non-cash accrual stratagems. Consequently, managers are forced to enhance operational efficiency and convert reported earnings into tangible cash flows, directly raising the operating cash flow-to-net income ratio. This mechanism is corroborated by Gunawan and Wahyuni (2018) and Putri and Rohman (2019), who verify that leverage exerts a significant positive influence on earnings quality due to enhanced external oversight that mitigates accounting distortions. Hence, the second hypothesis is posited as follows:

H_2: Leverage has a negative effect on the quality of profits.

The Effect of Company Size on Profit Quality

While the political cost hypothesis (Watts & Zimmerman, 1986) posits that larger corporations face greater regulatory scrutiny and public attention—theoretically compelling them toward superior financial reporting integrity—operational complexity in capital-intensive sectors introduces conflicting dynamics. Large enterprises within the basic materials sector typically feature extensive working capital cycles, slower receivable turnover, and intricate multinational transactions. This operational magnitude produces a substantial time lag between accrual-based revenue realization and actual operating cash receipts. Consequently, a vast asset base does not directly guarantee an immediate or proportionate conversion of net income into operating cash flow within a given financial reporting cycle. The predominance of non-cash accrual entries obscures the direct link between balance sheet magnitude and cash flow-based quality metrics. This argument is supported by Dewi and Laksito (2021) and Sari and Suryanawa (2019), who find that firm size does not significantly impact earnings quality because asset scale alone fails to predict the cash flow backing of reported profits. Based on these theoretical insights and empirical evidence, the third hypothesis is formulated as follows.

H_3: The size of the company has a positive effect on the quality of profits.

RESEARCH METHOD

The type of data used in this study is secondary data, namely data provided by other parties and not from direct sources. The source of data in this study is sourced from the financial statements of companies in the raw goods sector listed on the Indonesia Stock Exchange for the 2022-2024 period obtained from www.idx.co.id in 2022-2024. The sampling technique in this study uses the purposive sampling method with certain criteria, namely companies in the raw goods sector that consistently publish annual reports during the 2022–2024 period and do not suffer losses. Based on these criteria, the number of research samples was reduced from 109 companies to 46 companies. Meanwhile, the measurement of the variables used for each variable is as follows:

Table 1. Variable Measurements

No	Variable	Measurement	Source
1.	Profitability	ROA = $\frac{\text{Net Profit}}{\text{Total Assets}}$	Eugene F. Brigham dan Joel F. Houston (2018)
2.	Leverage	DER (*Debt to Equity Ratio*) = $\frac{Total\ Debt}{Total\ Equity}$	Kasmir (2019)
3.	Company Size	Company Size = Ln x Total Assets	Harahap (2015)
4.	Quality Profit	QE = $\frac{Cash\ Flow\ Operations}{Net\ Profit}$	Dechow et al. (2010)

RESULTS AND DISCUSSION

Table 2. Descriptive Analysis

Variable	N	Min	Max	Mean	Std. Dev
P	138	0.003	0.277	0.056	0,093
L	138	0.042	1.765	0.451	0,597
UP	138	25.595	32.880	29.082	4,018
KL	138	-2.568	9.722	1.462	1,742

Description:
P (Profitability), L (Leverage), UP (Company Size), KL (Profit Quality).
Source: Processed data (2026)

Selection of the Best Panel Data Model Chow Test
The criteria for making decisions for the Chow test are as follows:
1. If the probability (Prob) on Cross Section F < 0.05 then a better model is Fixed Effect.
2. If the probability (Prob) on Cross Section F > 0.05 then a better model is Common Effect.

Table 3. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.235175	(45,89)	0.0006
Cross-section Chi-square	104.354203	45	0.0000

Source: Processed data (2026)

Based on the results of the Chow Test using Eviews 9, the probability value of Cross Section F is 0.00. These results show that the value is less than the significance level (α= 0.05). Thus, the best model used is the Fixed Effect Model (FEM). Therefore, a Hausman Test is required to choose the best model between the Fixed Effect Model and the Random Effect Model.

Hausman Test

The Hausman test is used to choose whether the Fixed effect or Random effect model is

most appropriate.
Decision-making criteria:
1. If the Probability (Prob) < 0.05 then a better model is the Fixed effect.
2. If the Probability (Prob) > 0.05 then a better model is a Random effect.

Table 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.730636	3	0.0810

Source: Processed data (2026)

Based on the results of the Hausman Test, the probability value is 0.0810. This result is greater than the significance level value (α= 0.05). Thus, the best model used is the Random Effect Model (REM). Therefore, a Lagrange Multiplier test is needed in order to determine the best model between the Common Effect Model and the Random Effect Model.

Lagrange Multiplier Test

The Lagrange Multiplier test (LM test) is used to choose whether the most appropriate Common Effect or Random Effect model is used.
Decision Making Criteria :
1. If the significance on Both Breusch-Pagan < 0.05 then a better model is the Random Effect.
2. If the significance on Both Breusch-Pagan > 0.05 then a better model is Common Effect.
Decision-making criteria based on LM values:
1. If the value of LM > chi square table then a better model is Random Effect.
2. If the value of LM < chi square table then a better model is Common Effect.

Tabel 5. Uji Lagrange Multiplier

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	8.246593 (0.0041)	0.562738 (0.4532)	8.809331 (0.0030)

Source: Processed data (2026)

Based on the results of the Lagrange Multiplier test, the significance value for Both Breusch-Pagan is 0.00. This result is less than the significance level value (α= 0.05). Thus, the best model used is the Random Effect Model (REM).

Hypothesis Testing

Table 6. Random Effect Model

KL = 7,496 - 11,425*P + 1,338*L - 0,206*UP + ε

Variable	Prediction	Coefficient	t-Statistic	Prob.
C		7.496	2.412	0.017
P	+	-11.425	-3.485	0.000*
L	-	1.338	2.787	0.006*
UP	+	-0.206	-1.924	0.056
		R-Squared		0.125
		Adjusted R-Squared		0.106
		F-statistic		6.413
		Prob(F-Statistic)		0.000

Description:
*Significance Level 5%
P (Profitability), L (Leverage), UP (Company Size).
Source: Processed data (2026)

Coefficient Determination Test

Table 7. Determination Coefficient Test

R-squared	0.125541	Mean dependent var	0.984956
Adjusted R-squared	0.105964	S.D. dependent var	1.479596
S.E. of regression	1.399010	Sum squared resid	262.2687
F-statistic	6.412545	Durbin-Watson stat	1.831907
Prob(F-statistic)	0.000431		

The Adjusted R-Squared value of 0.106 indicates that Profitability, Leverage, and Company Size jointly explain approximately 10.6% of the variation in Profit Quality in the research sample. The remaining 89.4% may be associated with other factors that are not included in the research model. These results indicate that the three variables examined in this study provide a limited explanation of variations in Profit Quality and that Profit Quality may also be influenced by other financial and non-financial factors. Therefore, the findings should be interpreted within the scope of the research model and sample rather than as a comprehensive explanation of the determinants of Profit Quality.

Partial Test (T-Test)

The results of the test using the Random Effect Model (REM) can be concluded as follows:

1. Profitability with a probability value of 0.000 < 0.05, can be interpreted as the Profitability

variable has a negative and statistically significant effect on Profit Quality.
2. Leverage with a probability value of 0.006 < 0.05, it can be interpreted that the Leverage variable has a positive and statistically significant effect on Profit Quality.
3. Company Size with a probability value of 0.056 > 0.05, it can be interpreted that the Company Size variable has a negative effect and is statistically insignificant on Profit Quality.

DISCUSSION

Profitability to Profit Quality

Based on partial testing (t-test) using the Random Effect Model (REM), it shows that the Profitability variable has a coefficient of -11.425 with a probability of 0.000. The probability value is smaller than the significance level at α = 5% (0.05). Based on the results of these statistics, it can be stated that H1 is not supported, so it can be concluded that Profitability has a negative and significant effect on Profit Quality.The negative and significant relationship indicates that higher Profitability is associated with lower Profit Quality in the research sample. This finding differs from the initial expectation that higher profitability would be associated with better Profit Quality. One possible explanation is that an increase in reported profitability may not always be accompanied by a proportional increase in operating cash flow. In the Raw Goods sector, changes in commodity prices, production costs, sales conditions, and working capital requirements may affect the relationship between reported earnings and operating cash flows. Therefore, higher reported profitability does not necessarily indicate that the resulting earnings are fully supported by operating cash flows. From the perspective of Agency Theory, the finding suggests that higher profitability alone does not necessarily eliminate agency-related differences between managers and shareholders. From the perspective of Signaling Theory, profitability may provide information about financial performance, but it may not fully capture the cash-based quality of reported earnings. Thus, the finding indicates that profitability should be considered together with other financial information when assessing Profit Quality.

These results indicate that companies with high profitability do not necessarily generate quality profits. The difference between reported earnings and operating cash flows can lead to increased profitability not always followed by improved profit quality. From the perspective of Agency Theory, this finding suggests that higher profitability does not automatically eliminate differences in interests between managers and shareholders or ensure that reported earnings are fully supported by operating cash flows. Thus, the negative relationship found in this study indicates that the agency relationship may remain relevant even when companies report higher profitability. From the perspective of Signaling Theory, profitability may provide a positive signal regarding financial performance, but the signal may not fully reflect the cash-based quality of reported earnings. Therefore, the findings suggest that profitability should not be interpreted independently when assessing Profit Quality. The findings of this study contradict the research results of Magdalena and Trisnawati (2022), Lusiani and Khafid (2022), and Harwandita and Srimindarti (2023) who stated that Profitability has a positive effect on Profit Quality. However, the results of this study are in line with the research of Febrijianti (2023) which found that Profitability has a negative effect on Profit Quality.

Leverage Against Profit Quality

Based on partial testing (t-test) using the Random Effect Model (REM), it shows that the Leverage variable has a coefficient of 1.338 with a probability of 0.006. The probability value is smaller than the significance level at α = 5% (0.05). Based on the results of these statistics, it can be stated that H2 is not supported, so it can be concluded that Leverage has a positive and significant effect on Profit Quality. The positive and significant relationship between Leverage and Profit Quality indicates that companies with higher levels of debt tend to have higher Profit Quality in the research sample. This finding does not support the initial hypothesis, which expected leverage to have a negative effect because higher debt could increase financial pressure and create incentives for opportunistic financial reporting.

An alternative explanation is that debt financing may increase external monitoring from creditors. Companies with higher levels of debt may face greater demands to maintain financial reporting reliability because creditors have an interest in monitoring the company's financial condition and ability to meet its obligations. Such monitoring may constrain opportunistic reporting practices and encourage greater attention to the reliability of reported earnings. However, this explanation should be interpreted as a possible mechanism rather than evidence that creditor monitoring is the sole cause of the positive relationship. From the perspective of Agency Theory, the finding may indicate that the monitoring function associated with debt can operate alongside the potential agency conflict between managers and shareholders. Therefore, the positive relationship observed in this study suggests that the effect of leverage on Profit Quality may depend on the monitoring environment surrounding the company's debt obligations. These results indicate that higher use of debt does not necessarily lead to a decrease in Profit Quality. The existence of obligations to creditors can increase supervision of management, so that companies are encouraged to present more reliable financial information. The findings of this study contradict the research results of Desyana et al. (2023) and Maulita and Dewi (2023) which stated that Leverage has a negative effect on Profit Quality. However, the results of this study are in line with the research of Aprilianti et al. (2024) which found that Leverage affects the Quality of Profit.

The Size of the Company on the Quality of Profits

The Company Size variable has a negative coefficient of -0.206 with a probability value of 0.056, which is higher than the 5% significance level. Therefore, the results indicate a negative direction but do not provide sufficient statistical evidence of an effect of Company Size on Profit Quality. This finding suggests that differences in company size alone may not be sufficient to explain variations in Profit Quality in the research sample. The negative coefficient may indicate a tendency for larger companies to have lower Profit Quality; however, this tendency is not statistically strong enough to be interpreted as a significant effect. Larger companies may have more complex operational activities and financial structures, but company size alone does not necessarily determine whether reported earnings are supported by operating cash flows. From the perspective of Signaling Theory, company size may provide information regarding organizational scale, but the signal associated with size may not directly determine the cash-based quality of reported earnings. These results show that the larger the Company Size, the more Profit Quality tends to decrease, although the effect is not statistically

significant. This shows that companies with larger sizes do not necessarily generate higher quality profits. These results indicate that the size of the company is not yet the main factor determining the quality of profits. Companies with larger assets have more complex operational activities, so the size of the company alone is not enough to determine the quality of the profits generated. The findings of this study contradict the research results of Yoanita and Khairunnisa (2021), Bomantara (2024), and Mardiana et al. (2022) which stated that Company Size has a positive effect on Profit Quality. However, the results of this study are in line with the research of Maulita and Dewi (2023) and Azizah and Asrori (2022) which found that Company Size does not have a significant effect on Profit Quality.

CONCLUSION

1. Profitability has a negative and significant effect on the Quality of Profit. The results of the study show that the increase in profitability is followed by a decrease in the quality of profit. This shows that a high level of profitability does not necessarily reflect good profit quality, as the profit generated is not necessarily supported by adequate operating cash flow.
2. Leverage has a positive and significant effect on the Quality of Profit. These results show that the higher the Leverage level, the higher the Profit Quality tends to increase. The use of debt can increase supervision from creditors over the company, thereby encouraging management to present better quality financial statements and profits.
3. Company Size has a negative and insignificant effect on Profit Quality. These results show that the size of the company has not been able to determine the high and low quality of profits. Thus, companies that have a larger size do not always generate higher quality profits.

Advice

1. Further research is suggested to add other independent variables that are suspected to affect Profit Quality, such as liquidity, audit quality, and corporate governance, so that the research model can explain the variation in Profit Quality more comprehensively.
2. Further research is recommended to extend the research object to other sectors, such as the energy sector, which has the characteristics of a complex funding structure and high level of risk, and to increase the research period in order to reflect long-term conditions and improve the generalization of research results.
3. Further research is recommended to use different Profit Quality proxies or more than one measurement method, such as Discretionary Accrual Model or Earnings Persistence, so that the results of the study can be compared between proxies and provide a more comprehensive picture of Profit Quality.

REFERENCE

Agustina, L., & Trisnawati, E. (2020). Pengaruh profitabilitas, likuiditas, dan ukuran perusahaan terhadap kualitas laba. *Jurnal Akuntansi Bisnis dan Ekonomi*, *6*(2), 115–128.

Anggraeni, D., & Widati, L. W. (2022). Pengaruh leverage, likuiditas, dan profitabilitas terhadap kualitas laba. *Jurnal Akuntansi dan Keuangan*, *24*(1), 45–56.

Aprilianti, D., Kismayanti Respati, D., & Fauzi, A. (2024). Pengaruh likuiditas, leverage, dan ukuran perusahaan terhadap kualitas laba. *Jurnal Riset Akuntansi dan Perpajakan*, *11*(1), 89–102.

Azizah, V. N., & Asrori, A. (2022). The influence of company size, leverage, and liquidity on profit quality with profitability as a moderating variable. *Owner: Research and Journal of Accounting*, *6*(1), 1029–1042. https://doi.org/10.33395/owner.v6i1.712

Bomantara, R. (2024). Pengaruh leverage, ukuran perusahaan, dan pertumbuhan laba terhadap kualitas laba pada perusahaan manufaktur. *Jurnal Ilmiah Akuntansi dan Manajemen*, *20*(1), 55–67.

Brigham, E. F., & Houston, J. F. (2018). *Fundamentals of financial management* (15th ed.). Cengage Learning.

Charisma, A. (2021). Analisis faktor-faktor yang mempengaruhi kualitas laba pada perusahaan sektor industri barang konsumsi. *Jurnal Riset Terapan Akuntansi*, *5*(2), 112–124.

Dechow, P. M., Ge, W., & Schrand, C. M. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, *50*(2–3), 344–401. https://doi.org/10.1016/j.jacceco.2010.09.001

Desyana, G., Gowira, D., & Jennifer, M. (2023). The effect of leverage, company size, profit growth, and profitability on profit quality: A study on basic materials companies listed on the Indonesia Stock Exchange in 2017–2021. *Journal of Accounting Exploration*, *5*(3), 1139–1152. https://doi.org/10.24036/jea.v5i3.908

Dewi, P. R., & Laksito, H. (2021). Pengaruh ukuran perusahaan, persistensi laba, dan struktur modal terhadap kualitas laba. *Diponegoro Journal of Accounting*, *10*(3), 1–12.

Febrijianti, N. (2023). Analysis of the influence of profitability, profit growth and capital structure on profit quality in LQ45 index companies on the Indonesia Stock Exchange. *Jurnal Akuntansi dan Keuangan Indonesia*, *8*(1), 124–137.

Gitman, L. J., & Zutter, C. J. (2015). *Principles of managerial finance* (14th ed.). Pearson Education.

Gunawan, A., & Wahyuni, S. (2018). Pengaruh leverage, profitabilitas, dan ukuran perusahaan terhadap kualitas laba. *Jurnal Akuntansi dan Auditing Indonesia*, *22*(2), 133–144.

Harahap, S. S. (2015). *Analisis kritis atas laporan keuangan* (Edisi 1). Rajawali Pers.

Hartati, N. (2024). *Manajemen keuangan lanjutan: Konsep dan aplikasi*. Andi Offset.

Harwandita, C. S., & Srimindarti, C. (2023). The influence of profitability, liquidity, audit committee, company size on the quality of profits. *Indonesian Journal of Accounting and Financial Research*, *4*(2), 735–746.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, *76*(2), 323–329.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Kasmir. (2019). *Analisis laporan keuangan* (Edisi revisi). Rajawali Pers.

Lestari, M. (2021). *Analisis profitabilitas dan kinerja keuangan entitas bisnis*. Salemba Empat.

Lusiani, S., & Khafid, M. (2022). The influence of profitability, capital structure and company size on profit quality with managerial ownership as a moderating variable. *Owner:*

Research and Journal of Accounting, *6*(1), 1043–1055. https://doi.org/10.33395/owner.v6i1.719

Magdalena, V., & Trisnawati, E. (2022). The influence of profitability, liquidity, accounting conservatism, and intellectual capital on the quality of profits. *Journal of Economics*, *27*(3), 402–419. https://doi.org/10.24912/je.v27i03.888

Mardiana, A., Fitriani, D., & Hidayat, R. (2022). Analisis pengaruh struktur modal, ukuran perusahaan, dan likuiditas terhadap kualitas laba. *Jurnal Riset Manajemen dan Bisnis*, *7*(3), 245–256.

Maulita, N. A., & Dewi, N. G. (2023). The influence of leverage, liquidity, profitability and company size on the quality of profits. *Journal of Developmental Accounting*, *10*(2), 432–445. https://doi.org/10.52859/jba.v10i2.366

Mendrofa, D. K. (2024). *Analisis leverage dan dampaknya terhadap risiko keuangan*. Deepublish.

Nurlalela, S. (2024). Pengaruh leverage dan perputaran modal kerja terhadap profitabilitas perusahaan. *Jurnal Ilmu dan Riset Akuntansi*, *13*(2), 1–15.

Putri, A. R., & Rohman, A. (2019). Pengaruh leverage, investment opportunity set (IOS), dan mekanisme good corporate governance terhadap kualitas laba. *Diponegoro Journal of Accounting*, *8*(4), 1–11.

Sari, N. M. D. P., & Suryanawa, I. K. (2019). Pengaruh ukuran perusahaan, leverage, dan likuiditas terhadap kualitas laba. *E-Jurnal Akuntansi*, *28*(2), 1332–1358. https://doi.org/10.24843/EJA.2019.v28.i02.p17

Smith, C. W., & Warner, J. B. (1979). On financial contracting: An analysis of bond covenants. *Journal of Financial Economics*, *7*(2), 117–161. https://doi.org/10.1016/0304-405X(79)90011-4

Spence, M. (1973). Job market signaling. *The Quarterly Journal of Economics*, *87*(3), 355–374. https://doi.org/10.2307/1882010

Warianto, P., & Rusiti, C. (2014). Pengaruh ukuran perusahaan, struktur modal, likuiditas dan *investment opportunity set* (IOS) terhadap kualitas laba pada perusahaan manufaktur yang terdaftar di BEI. *Modus: Jurnal Ekonomi dan Bisnis*, *26*(1), 19–32.

Watts, R. L., & Zimmerman, J. L. (1986). *Positive accounting theory*. Prentice-Hall.

Yoanita, F. D., & Khairunnisa, K. (2021). The effect of company size, liquidity, and profit alignment on profit quality. *Jurnal Akuntansi, Keuangan, dan Manajemen*, *1*(4), 605–612.